INDEX 175 150 125 100 75 50 25 0

BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS JAN. 2, 1960

THE SHAPE OF '60

FOR WORLD BUSINESS

this year U.S. business is more deeply involved than ever before in world business p. 17 **American managers are . . .**
looking abroad for new sources of goods p. 66 **and . . .**
adjusting strategies for worldwide sales p. 56 **While . . .**
U.S. management techniques spread abroad p. 58

how export trade will be shifting p. 70 **. . .**
where business will boom or droop around the world p. 24
what the world's stock markets will be doing p. 76

in BUSINESS this WEEK *January 2, 1960*

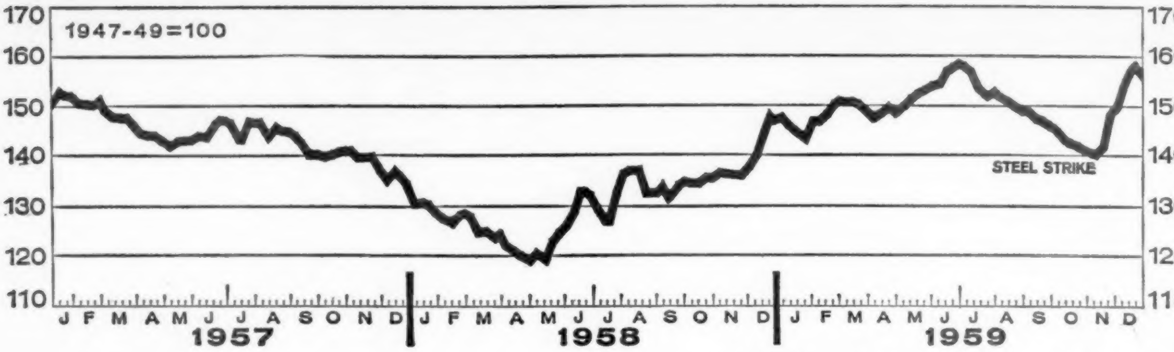
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., 330 W. 42nd St., N. Y. 36, N. Y. Second Class Postage Paid at N. Y. 1, N. Y., and at Albany, N. Y. Subscriptions \$6 a year in U. S. A. Canadian and foreign rates on request.

NUMBER 1583

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**149.2**	**148.6**	**159.0 r**	**157.4***
PRODUCTION					
Steel ingot (thous. of tons)	2,032	1,840	2,650	2,641r	**2,687**
Automobiles	125,553	104,907	46,740	152,449r	**103,420**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$63,019	$69,114	$60,829	**$52,460**
Electric power (millions of kilowatt-hours)	10,819	12,379	13,173	14,150	**13,400**
Crude oil and condensate (daily av., thous. of bbl.)	6,536	7,128	6,969	7,139	‡
Bituminous coal (daily av., thous. of tons)	1,455	1,505	1,571	1,529r	**1,516**
Paperboard (tons)	247,488	320,797	310,853	317,809	‡
TRADE					
Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	70	55	59	62	**60**
Carloadings: all others (daily av., thous. of cars)	47	40	46	45	**42**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	304	182	298	**318**
Business failures (Dun & Bradstreet, number)	198	185	268	285	**195**
PRICES					
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	89.2	93.9	93.5	**93.3**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	80.8	72.8	70.3	**70.2**
Print cloth (spot and nearby, yd.)	19.8¢	18.2¢	22.4¢	23.0¢	**23.0¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	186.9	186.8	186.8	**186.8**
Scrap steel composite (Iron Age, ton)	$36.10	$39.83	$43.50	$41.17	**$41.17**
Copper (electrolytic, delivered price, E & MJ, lb.)	32.394¢	29.000¢	33.744¢	34.200¢	‡
Aluminum, primary pig (U. S. del., E&MJ, lb.)	20.6¢	24.7¢	24.7¢	25.4¢	‡
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.)	‡	21.77¢	23.92¢	23.93¢	‡
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$2.00	$2.07	$2.14	**$2.05**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	34.57¢	34.34¢	31.67¢	31.83¢	**31.85¢**
Wool tops (Boston, lb.)	$1.96	$1.64	$1.85	$1.86	**$1.86**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	54.96	58.32	59.07r	**59.09**
Medium grade corporate bond yield (Baa issues, Moody's)	3.59%	4.87%	5.25%	5.29%	**5.30%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2-2⅛%	3⅜%	4¾%	4⅞%	**4⅞%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	‡	62,877	61,260	63,446	‡
Total loans and investments, reporting member banks	‡	103,918	102,841	105,330	‡
Commercial, industrial, and agricultural loans, reporting member banks	‡	32,251	30,820	31,342	‡
U. S. gov't guaranteed obligations held, reporting member banks	‡	34,618	27,232	27,783	‡
Total federal reserve credit outstanding	26,424	28,899	28,857	29,365	**30,006**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Exports (in millions)	**November**	$1,290	$1,596	$1,476	**$1,479**
McGraw-Hill Indexes of New Orders (1950 = 100)					
New Orders for machinery, except electrical (seasonally adjusted)	**November**	104	143	172	**161**
Construction & mining machinery	**November**	111	151	194	**176**
Engines & turbines	**November**	106	133	188	**185**
Pumps & compressors	**November**	120	188	189	**259**
Metalworking machinery	**November**	125	115	222	**156**
Other industrial machinery	**November**	95	140	139	**135**
Office equipment	**November**	109	148	180	**186**
New contracts for industrial building	**November**	128	72	171	**148**

** Preliminary, week ended December 26, 1959.*
r Revised.

‡ Not available.
§ Date for 'Latest Week' on each series on request.

THE PICTURES—17—(top) London Daily Express from Pictorial Parade, (second) UPI, (third) Fox from Pictorial Parade, (fourth) Joan Sydlow, (bot.) UPI; 20, 21—Joern Gerdts; 22—WW; 24—WW; 25—(top) Eric Hess, (bot.) McGraw-Hill World News; 26—(top) UPI, (bot.) WW; 30—Jim Mahan; 37—Jack Fuller; 38, 39—Texaco, Inc.; 58, 59—Ed Malsberg; 66—Rune Hassner; 67—(lt.) Rune Hassner, (rt.) Grant Compton; 68—Rune Hassner; 73—U. S. Council of the International Chamber of Commerce; 74—John Coneen; 75—(top) Electronics, (bot.) Grant Compton; 87—Tom O'Reilly; 92, 93, 94—Leonard Nadel.

1 Vinyl latex gives do-it-yourself paints greater:
(a) scrub resistance *(b) one-coat hiding power*
(c) freedom from lapping and streaking

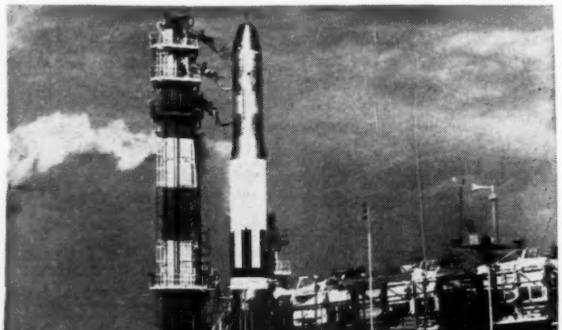
2 Rich, leather-textured finish on this auto top is:
(a) baked vinyl coating on steel *(b) vinyl coating on cloth*
(c) molded vinyl sheeting

Can you pass this test on Vinyl plastics?

(You'll profit by knowing them better)

3 What parts of her shoes are molded vinyl?
(a) the soles *(b) the heels*
(c) the whole shoe

4 Well-dressed lambs wear vinyl film to:
(a) make them easy to find *(b) keep oil off shepherd's hands*
(c) protect against rain and cold



5 Chief advantage of vinyl jacket for missile control cable is:
a) light weight *(b) flexibility*
(c) resistance to oxidation

ANSWERS... *to a multitude of needs are found in versatile BAKELITE vinyl plastics:*

1. (a), (b), and (c). You're right if you picked them all.
2. (a) Textured vinyl coating on steel looks like leather—wears like iron.
3. (c) The whole shoe—waterproof, tough, glossy and scuff-resistant.
4. (c) Protection against weather—cuts drastic winter lamb mortality.
5. (c) Resistance to oxidizing effect of rocket fuel vapors. Light weight and flexibility contribute to ease of handling.

If you have questions—about plastics and their potential for your business—please ask us. We'll be glad to answer on the uses of vinyls, epoxies, phenolics, styrenes, and polyethylenes. Just write or call any of our offices or write Dept. AB-01A, Union Carbide Plastics Company, Division of Union Carbide Corporation, 30 East 42nd Street, New York 17, N. Y. *In Canada:* Union Carbide Canada Limited, Toronto 7.

UNION CARBIDE

BUSINESS WEEK • JANUARY 2, 1960 • NUMBER 1583

Published weekly by McGraw-Hill Publishing Company, Inc., James H. McGraw (1860-1948), Founder. **PUBLICATION OFFICE:** 330 West 42nd Street, N. Y. 36, N. Y. See panel below for directions regarding subscriptions or change of address. **EXECUTIVE, EDITORIAL, CIRCULATION and ADVERTISING OFFICES:** McGraw-Hill Building, 330 West 42nd Street, N. Y. 36, N. Y. Donald C. McGraw, President; Joseph A. Gerardi, Executive Vice President; L. Keith Goodrich, Vice President and Treasurer; John J. Cooke, Secretary. Officers of the Publications Division: Nelson L. Bond, President; John R. Callaham, Vice President and Editorial Director; Joseph H. Allen, Vice President and Director of Advertising Sales; A. R. Venezian, Vice President and Circulation Coordinator. Subscriptions to Business Week are solicited only from management men in business and industry. **POSITION AND COMPANY CONNECTION MUST BE INDICATED ON SUBSCRIPTION ORDERS. SEND TO ADDRESS SHOWN IN BOX BELOW.** United States subscription rates for individuals in the field of the publication, $6 per year, single copies 50¢. Canadian and foreign rates on request. Second class postage paid at N. Y. 1, N. Y. and at Albany, N. Y. Printed in U. S. A. Title registered in U. S. Patent Office.

SUBSCRIBERS: Send subscription correspondence and change of address to Fulfillment Manager, BUSINESS WEEK, 330 W. 42nd Street, N. Y. 36, N. Y. Subscribers should notify Fulfillment Manager promptly of any change of address, giving old as well as new address, and including postal zone number, if any (official Post Office request). If possible, enclose an address label from a recent issue of the magazine. Since copies are addressed one to two issues in advance, please allow one month for change of address to become effective.

POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

More on "Payola"

Dear Sir:

Of course there's "payola" in business! [BW—Dec.5'59,p28]. Especially in consumer goods business. Lots of it. . . . There's probably more of it now than ever before.

The "spiff," for instance; wherein the manufacturer pays the distributor salesman so much per case sold by the salesman to the retail dealer. . . . The idea here is to get the salesman to push this manufacturer's product. . . .

And how about "dating"? Isn't that "payola"? What's so clean and honest about dating? It's nothing more than out-and-out financing. The manufacturer ships to the distributor in December or January and the distributor doesn't have to pay his bill until, say, May 20. The distributor turns around and sells this same merchandise to his dealers on much the same basis. He ships to the dealer in January or February, and the dealer is given until May 10 to pay the distributor. If the distributor collects by May 10 he can then pay his own bill to the manufacturer by May 20th.

This should be the function of a bank, not a manufacturer. . . .

E. OLSHANSKY

PRESIDENT
SCIENCE PRODUCTS CO. INC.
CHICAGO, ILL.

Promotion From Within

Dear Sir:

Promotion from within may work well for some companies, but it would be unfortunate if all or most firms adhered to such a policy. Mobility in the middle and top management positions would become nonexistent for moving would mean starting well down the ladder once again. For both the company and the would-be executive, the decision to accept the other would involve a degree of permanence equal to marriage. Where the marriage proves beneficial to both, fine; but circumstances, in which trying to fix blame is a waste of time, sometimes make separation mutually desirable. . . .

"Organization Man" is already more interested in security than in the risk which invariably accompanies opportunity. Let's not fence him in should he occasionally be willing to venture out.

J. SCHOEPPLER

AMERICAN CAN CO.
NEW YORK, N. Y.

"Look...the Steering Levers are Gone!"

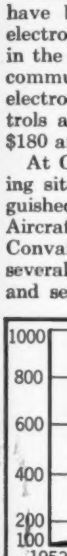
Florida

...launching pad for electronics

E

...

FAR MO
in Flor
sprung
produc
plants
several
Mor
have l
electro
in the
commu
electro
trols a
$180 a
At C
ing sit
guished
Aircraf
Conva
several
and se



SOURCE
alysis of
(S.I.C. 36
and Instr
tronics p
Ordnanc

INDUS

In oth
than 10
tronics
ELEC
moved
burg in
employ
tion an
GEN
plant l
in 1957
ELEC
INC., S
MIN
opened
St. Pet
of 20 o
buildin
Palm B
to ever

— Rad
than 1,10
A unit o
for the U
tracking

(Advertisement)

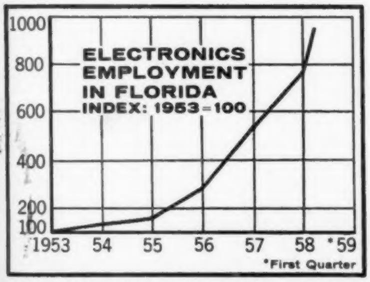
Florida

...launching pad for electronics

FAR MORE THAN MISSILES are launched in Florida. New electronics plants have sprung up throughout the state, many producing civilian goods. Established plants have expanded, some of them several times in recent years.

More than thirteen thousand workers have been added to the payrolls in electronics and closely related industries in the last five years. Factory sales of communications equipment, missiles, electronic components, automatic controls and similar devices are between $180 and $200 million annually.

At Cape Canaveral, famous launching site of missiles, a score of distinguished firms, including RCA, Douglas Aircraft, Pan American, Westinghouse, Convair and Bell Telephone, employ several thousand technicians in research and service operations.



SOURCE: Florida Development Commission analysis of industry groups for Electrical Machinery (S.I.C. 36); Transportation Equipment (S.I.C. 37); and Instruments (S.I.C. 38). Only makers of electronics products in these groups were included. Ordnance (S.I.C. 19) was not included.

INDUSTRY GROWTH IS STATE-WIDE

In other parts of the state are more than 100 manufacturing plants in electronics and closely related fields.

ELECTRONIC COMMUNICATIONS, INC., moved from New Jersey to St. Petersburg in 1957, expanded twice and now employs 1,300 in making communication and navigation equipment.

GENERAL ELECTRIC'S St. Petersburg plant has grown from 250 employees in 1957 to more than 1,200.

ELECTRO-MECHANICAL RESEARCH INC., Sarasota, now employs 400.

MINNEAPOLIS-HONEYWELL, which opened its inertial guidance center in St. Petersburg in 1957 after a survey of 20 other areas in the country, is now building a transistor plant near West Palm Beach. Employment is expected to eventually reach 1,000.

—— Radiation, Inc., Melbourne, employs more than 1,100 in several Florida plants. Shown here: A unit of the antenna system being developed for the U.S. Air Force. It is the most advanced tracking antenna now in use.

SMALLER PLANTS SUCCESSFUL, TOO

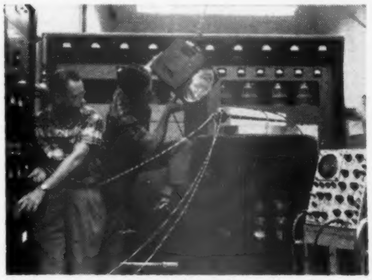
Smaller manufacturers, too, have prospered in Florida. A typical case is Milgo Electronics Corporation, one of 25 electronics manufacturers in Greater Miami. Milgo was founded in 1955 with five employees. Three years later it had grown to 109 workers and expansion in 1959 brought the total to 255.

Florida electronics firms make a wide variety of non-military products. In Fort Lauderdale, Telectron Company makes automatic garage door openers and other electronic controls. In Coral Gables, The Communications Company makes two-way mobile radios.

TAMPA ARMATURE WORKS, INC., with plants in Tampa and Jacksonville, has doubled production in the last five years.

RURAL LOCATIONS OFTEN FAVORED

Many industries find that Florida's small cities are ideal locations. In Ormond Beach, Electro-Tec Corporation opened in 1956, expanded in 1959. In Fruitville, Workman Television, Inc. makes TV, radio and electronic parts. In Casselberry, Johnson Electronics, Inc., produces coils and components.



Sperry-Rand opened its Gainesville plant with 80 employees in 1955, now employs 675. Shown here: Vibration testing for electron tubes.

Subcontractors in Florida have found ready market for their products, and as the electronics industry expands, opportunities grow ever more numerous.

Research and engineering in electronics and related fields have shown growth comparable to manufacturing operations. Nineteen new or expanded facilities were announced between 1955 and 1958, with new employees estimated at a total of more than 2,500.

SKILLED MANPOWER IS PLENTIFUL

Scientists and engineers, as well as skilled workmen, are easy to recruit. Minneapolis-Honeywell, Martin Orlando and others received literally thousands of applications from technicians in all parts of the country when they announced openings in Florida. Such firms as Pratt & Whitney Aircraft, General Electric and Visioneering Company, Inc., have praised the caliber of Florida workers. When 17 electronics firms were asked what they found most advantageous in Florida, 14 named the employment situation.

FLORIDA—GROWING IN EVERY WAY

Since 1950, Florida has grown from 20th to 12th in population and more than 4.6 million people now live in the state.

Between 1949 and 1959, overall manufacturing employment increased 101 per cent. The national gain during the period was about ten per cent.

More than nine million tons of exports and imports passed through the state's 13 deep water ports last year. Tampa's port alone handled nearly four million tons of cargo. Value of Florida's foreign trade has increased 61 per cent in the last four years.

Martin Orlando's research and development facility opened in 1957, now occupies 843,000 square feet. Employment has risen to 8,000.

WRITE FOR INFORMATIVE SURVEYS

This is the 13th in a series of industrial advertisements. A file folder, *Profile of Progress*, is available through the Industrial Services Division of the Florida Development Commission, covering:

Markets, Manpower, Transportation and Ports, Climate and Living Conditions, Taxes and Government, Research, Materials and Resources, Power and Water, Industrial Growth.

The Industrial Services Division will assist in screening available plant sites throughout Florida without revealing company identities. It will gladly provide concise facts and information tailored to the needs of any company which is interested in Florida as a possible location. All inquiries will be held in strictest confidence.

Write today to B. R. Fuller, Jr., Executive Director, Florida Development Commission, 3903-5 Carlton Building, Tallahassee.

See industrial Florida for yourself. Write State of Florida, Dept. B, Carlton Building, Tallahassee, for new, 100-page color Vacation Guide Book to help plan your Florida tour.

BUSINESS OUTLOOK

BUSINESS WEEK

JAN. 2, 1960

A BUSINESS WEEK SERVICE

If you've been worrying about the rate at which production has been growing (or our growth compared to Russia's), remember this:

We will shortly have the arithmetic of manpower running for us.

We've about worked our way through our "hollow generation"; we'll have more and more young people coming to working age and entering the labor force from now on. (Russia, for its part, suffered low birth rates during the war years; growth in its labor force is slowing down.)

This matter of growth rates, already on a lot of tongues, took on a new prominence this week when:

- The Federal Reserve Board unveiled its revised production index, showing a faster rate of growth than the old figures (page 23);
- And the staff of the Congressional Joint Economic Committee urged recipes of its own to spur growth and curb inflation (page 61).

Growth has not been made any easier in recent years by the size and shape of the pool of workers available.

Additions have been limited by the low birth rates through the Thirties. Had it not been for the windfall of 750,000 released from the armed forces in the 1955-59 period, net gains would have averaged only 833,000 a year over these five years.

The addition won't average much larger for a couple of years. But after that the rate will begin to mirror the postwar baby boom.

Rapid increases in the number of workers will not automatically bring an equivalent rise in the rate of economic growth.

The potential is there, certainly, but it has to be put to use.

The workers available in, say, 1965 can mean rapidly rising output, payrolls, and living standards. Or they can mean a rising rate of unemployment, under-utilization of resources, and stagnation.

We have had about 72-million hands in our work-force in 1959. By 1965, the number should be in the neighborhood of 79-million. And in 1970 the total is likely to be up to 86-million.

Now reduce the figures to average gains: 833,000 a year for 1955-59, inclusive; better than 1,125,000 for the next six years; and 1.4-million a year in the following five years.

These people will need jobs if per capita purchasing power is to be maintained (and if the Soaring Sixties are to live up to expectations).

The population, now above 178-million, is likely to grow by 35-million by the time 1970 rolls round. And there's the market—213-million mouths to feed and bodies to clothe; a rapidly rising rate of family formation (as the new entrants to the labor force get jobs and marry) with resultant demands for housing and home furnishing; growing needs for transportation, personal care.

And, if things go as expected, more leisure and recreational needs; new resort customers, new skiing enthusiasts, new fishing fans.

New breadwinners, on the prowl for their first jobs, will bring joy to many a personnel manager. The surge of young people will be a welcome improvement in itself. But, in addition to youth, they'll bring with them an increasing background of education.

At present, for example, 83% of high school-age youngsters are in school compared to 73% 20 years ago. More to the point, 40% of those between 18 and 21 are in school or college, up from 15% two decades ago.

Longer schooling means, of course, that the labor force is expanding less rapidly right now than it would have in times past. Job candidates come to you a couple of years later than they used to.

But if this retards the upsurge in the labor force, it promises a lush dividend: Workers who are more useful and productive on arrival (even though the rush of young people still must be trained for specific skills).

Changing composition of the labor force, it should be noted, will also provide some headaches for the personnel manager.

There will be a lot more workers, to be sure. But the hollow generation has to work its way on through the years—which means a scramble for skills and executive talents as people born in the thirties become your sole source of 30-year-olds and 40-year-olds.

Then, too, old timers will find less incentive to stay on, what with social security and the growth of retirement plans.

This means new emphasis on training youngsters for advancement.

Actually, **our postwar labor force has been something of a hodge podge affair.** We've had to make do with a lot of casual workers—students during vacations, married women, and oldsters who have been available only for part-time or seasonal work in a great many instances.

Considering the man-hours and woman-hours to be had from them on such an irregular basis, the production growth achieved may be just a little remarkable.

We will go on using casual workers in rush periods, of course. But they will be a declining factor in total hours of input.

During boom periods, when jobs are easy to get and inducements most freely offered, the manpower offered in the labor market swells far beyond the normal growth rate.

Take the 1955-56 upswing, for example, in 1955, the civilian labor force grew by nearly 1.4-million and in 1956, by 1.7-million.

And, you'll see more-than-normal growth in 1960, too (partly because the rise in 1959 was held down by labor troubles).

By summer, when outdoor work is at its peak, employment stands an excellent chance of setting a new high above 69-million. For the year as a whole, non-farm jobs are likely to top 1959 by 2-million (with fewer people as farm hands, more seeking better-paid non-farm work).

And unemployment, barring any more big strikes, will average only a little more than 3-million for the year (which may be pretty close to a minimum).

Minutes from Your New Plant in Tidewater Virginia

Enjoyable living is a significant factor involved in modern plant site selection. Above are two witnesses to the brand of living available in Tidewater Virginia — a plant just minutes from the matchless duck hunting of world-famed Back Bay.

Executives, supervisors, and production employees all can take part in the opportunities of Tidewater . . . housing is abundant and inexpensive, living costs are low, and new residents are warmly welcomed.

Located at the center of the Eastern Seaboard, Tidewater Virginia has long been a vital industrial and commercial hub. Today it is growing at a rate $2\frac{1}{2}$ times that of the nation. Tidewater Virginia is a good place for your new plant and for the men and women you will employ. For a confidential report on how we can meet your specified needs, contact:

Tidewater Virginia Development Council

TVDC
TIDEWATER VIRGINIA

Clarence H. Osthagen
Vice President and
Executive Director
300 Boush Street
Norfolk, Virginia


Customers rise to thcol
FISHERMEN!
We'll be glad to mail you
names and addresses of over
60 manufacturers of lures
made of Tenite Butyrate.


h colorful lure of Tenite plastics
■ To sell a product once, make it attractive. ■ To sell a product over and over, make it dependable. ■ To make products that are both attractive and dependable, make them of tough Tenite plastic.
The fish lures shown here are a good example of how the properties of the versatile Tenite plastics can be matched to the demands of a specific application. Made of Tenite Butyrate, these lightweight lures have a buoyancy that permits them to dart and wiggle through the water with graceful, realistic vigor. Yet not even the most savage jaws will break them, so tough is the plastic. Moreover, the plastic bodies undergo little change in salt or fresh water, since Butyrate resists water absorption and neither rusts nor corrodes. Color effects, too, are lasting...for they're applied with durable lacquers that form an integral bond with the plastic.
Is Tenite Butyrate or some other Tenite plastic a possible answer to one of your own material problems? Easy and economical to injection mold or extrude, these Eastman plastics are available in clear transparent or in any color you desire...transparent, translucent, opaque, pearlescent or variegated. Versatile Eastman plastics include Tenite Butyrate, Tenite Acetate, Tenite Propionate, Tenite Polyethylene and Tenite Polypropylene. EASTMAN CHEMICAL PRODUCTS, INC., subsidiary of Eastman Kodak Company, KINGSPORT, TENNESSEE.
TENITE®
BUTYRATE • PROPIONATE
ACETATE • POLYETHYLENE
POLYPROPYLENE
plastics by Eastman


KELLOGG-ENGINEERED PLANTS
GET GOING
FASTER AND AT TOP EFFICIENCY
No matter how well designed and built, no new plant is a successful investment until it is operating at full efficiency.
Putting process plants into production quickly, with assurance that they will attain and maintain designed production capacities within planned operating costs, is the end result of M. W. Kellogg's coordinated engineering, procurement, and construction services.
Whatever type of processing facilities, wherever in the free world they may be, Kellogg engineers stay on the job to help customers' engineers start up the plant, bring it up to design capacities or better, and train operators to keep it producing profitably.
The complete facilities of Kellogg's international engineering and contracting organization are described and documented in Kellogg's brochure, "Planning the New Plant for Profits". Write today, on your company letterhead, for your copy.
PLANNING
PROFITS
KELLOGG
THE M. W. KELLOGG COMPANY
711 Third Avenue, New York 17, N.Y.
A Subsidiary of Pullman Incorporated
Offices of Kellogg subsidiary companies are in Toronto, London, Paris, Rio de Janeiro, Buenos Aires, and Caracas

BUSINESS WEEK

JANUARY 2, 1960

NUMBER 1583

World Economy Changing in '60

With postwar Europe and Japan facing shattered economies and the have-not nations craving industry, the whole world wanted U. S. goods but had no way to pay for them.

U. S. government responded with direct grants and loans, trade policies rigged to favor the rest of the world. Washington also put pressure on business to invest abroad.

The prescription worked. Most free-world industrial nations are vigorous, stable, and intensely competitive. U. S. capital is flooding overseas—but now it helps unbalance U. S. trade.

Business' job now: To meet fierce competition from strong foreign industries. Also, U. S. banks face challenge of playing bigger role as lenders to the world.

Government's job now: To persuade other industrial countries to stop discriminating against U. S. goods and to contribute a larger share to defense costs and aid to underdeveloped nations.

The U. S. has reached a turning point in its economic relations with the rest of the world—on the part of both government and private business.

The years 1945-59 can already be described as the "postwar era," a period that has been left behind and replaced by a new era, still undefined. During that postwar era, the U. S. was the wealthy benefactor playing the major role in putting the free world's shattered economy back together again. At the same time, of course, it took the lead in fighting the East-West cold war to its present stalemate.

• **Lesser Spot**—In the new era now opening—by the luck of the calendar at the start of a new decade—the U. S. won't be so dominant economically. And its role will be different. U. S. business, though, will remain as heavily involved as ever in the world economy.

In large part, the reason for the shrinkage in U. S. economic power is the impressive new economic strength commanded by Western Europe and Japan. They are both now threatening the U. S. in world markets. Simultaneously, the cold war is apparently turning into a more open political battle.

The economic role that seems to lie ahead for the U. S. is that of world banker, rather than world benefactor. The U. S. will continue to supply capital around the globe, but more and more of it will come from private sources, instead of from the government, and it will be granted on a purely business basis, not with all the concessions to the borrower that accompanied postwar foreign aid.

The U. S. can no longer afford to play benefactor to all the free world, and it will no longer be giving away advantages to other big industrial nations. It will insist on striking a new financial balance with its allies and on maintaining reasonably free and equal competition in the international market-place—not under the catch-as-catch-can rules of the 1930s, but under the rules set up at Bretton Woods at the end of World War II, when a framework was established to make possible freely convertible currencies and relatively unrestricted multilateral trade.

• **Washington to Wall Street**—The job of extending credit to the world will gradually shift from Washington's gov-

. . . the European economies blossomed out into full strength after Suez. As they began showing off this vigor, the U. S. export surplus withered away . . .

(STORY on page 17)

ernment agencies to New York's banks and other big U. S. financial institutions. Such a shift looks necessary if the dollar is to regain the standing it had in the world before 1958, when a heavy gold drain started from the U. S. to the industrial nations of Western Europe. In its new role, the U. S. should be able both to restore strength to the dollar and retain its position as the center of the free world economy.

The change in the U. S. role won't be sudden or drastic, of course. The situation isn't that serious. Some government programs probably will go on in much their present form—such as the substantial economic aid for India and other underdeveloped countries and the contributions to defense costs of Western Europe and Japan.

• **Payments Deficit**—Still, something has definitely happened to the nation's once overpowering international economic position. This is plain to U. S. industry—or at least to the big companies that do a lot of foreign business. You can tell that from the way some industry executives are talking about the gloomy prospects for U. S. exports and the threat of rising imports (page 70). Related to the export-import problem is the trend of many U. S. companies to pour more and more money into overseas plants—frequently with the idea of bringing some of their foreign-produced goods back into the U. S. market (page 68).

The dollars that go into these overseas operations show up in the balance of payments on the deficit side, as an outflow of capital that largely offsets the income from past foreign investment. And the operations themselves cut into the export of U. S.-produced goods or tend to increase imports—or both.

I. Fabulous Success Story

By now, the U. S. contribution to rebuilding the economy of war-torn Western Europe is an old story. Thanks to the billions of dollars provided by the U. S., European production and exports rose steadily, despite temporary setbacks. Through the Marshall Plan and the mutual defense programs that succeeded it, the U. S. was trying to close Europe's so-called dollar gap. It had the same goal for Japan, too. During all the postwar years, the U. S. was a creditor striving to rehabilitate its debtors.

What's not so well understood, even today, is how staggeringly successful this policy had been by 1958. By then, despite some misleading appearances of weakness in the 1956-57 Suez crisis, the big nations of Western Europe had built up industrial economies of amazing strength. Some of them were even stronger, relative to the U. S., than they had been between World Wars I and II. Japan had done just as well.

At the same time, all these nations had licked the worst of their postwar inflation problems; West Germany did the best job, France the least successful. With wage rates still much lower than U. S. scales, Western Europe and Japan were, all in all, well poised to compete with the U. S. on even terms. And they showed it by heaping exports in the U. S. market during 1958-59.

• **Rigged Deck**—But during those two years the U. S. was still stacking the cards in favor of the Japanese and West-ern Europeans—as it had been doing ever since the war. In the first place, the U. S. was helping to insure their security with its nuclear power and the modern weapons supplied through military aid programs. But, more important, the U. S. was giving direct protection to the industries—and currency reserves—of these nations by going along with import quotas and exchange controls that discriminated against dollar goods and services. In effect, this country was not getting a quid pro quo for the tariff concessions it had been making since World War II under the General Agreement on Tariffs & Trade.

Originally, the U. S. had agreed to protective measures because of the dollar shortage afflicting its allies abroad. But by 1958, with the dollar gap closed, the foreign restrictions were really beginning to hurt some U. S. industries. They also encouraged the continued migration of U. S. manufacturing overseas.

• **Indirect Assistance**—Even though direct economic aid to the big industrial nations had been suspended, the U. S. was still helping finance British, German, and Japanese exports of capital goods to underdeveloped countries. This was done by letting foreigners bid on development projects for which the U. S. paid the bills through its aid programs.

U. S. military spending abroad did even more to weaken the nation's payments position and strengthen the competition's. In the peak year of 1958, the government transferred some \$1.8-billion to Western Europe and more than \$500-million to Japan through such military expenses as maintenance of overseas bases, procurement, and troop pay.

II. A Question of Structure

All these factors contributed to the big deficit in the U. S. balance of payments with Western Europe in the last two years—a deficit that makes up almost all the \$7-billion total deficit for 1958-59. The same factors were partly responsible for the heavy loss of gold to European central banks in 1958.

But the special postwar props provided for the allies don't explain why the payments deficit suddenly became so large. After all, the props weren't new.

What was new was the way the European economies blossomed out out into full strength after Suez. As they began showing off this vigor around world markets, the U. S. export surplus withered away. Until then, in figuring the U. S. balance of payments, this surplus had pretty well offset the aid and favors granted to the rest of the world.

• **Cyclical Problem?**—To be sure, in 1958-59 there were some special factors that help explain what happened. Chief among these is the lag between the boom side of the business cycle in the U. S. and that in Europe. With Europe at the bottom of its cycle during 1958 and into 1959, U. S. exports naturally suffered. And last year, as business picked up sharply here, so did European sales in the U. S. market.

But it looks increasingly as if the problem with the trade balance is more than cyclical: something closer to a structural weakness. This is the question in economists' minds when they debate whether the U. S. has lost its strength in international trade rivalry with Western Europe and Japan. And it's what businessmen are talking about when they say "the U. S. has priced itself out of the world market."

• **On Two Sides**—No one seems to have the final answer to this question. Some people look at over-all price levels—say, in 1952-58—and argue that the U. S. couldn't have lost any ground, since its prices have risen no more than those of its leading competitors. According to this view, the rivals have gained only one real advantage—enough production, beyond domestic needs, to match the U. S. on delivery dates and variety of products. In support of this position, you can also argue that the lower wages abroad reflect lower productivity, so that wage advantages won't help in the end.

On the other hand, a growing number of U. S. industrial leaders, many of them participating in the migration of U. S. production abroad, conclude that in a wide range of mass-production in-

dustries the U. S. can't compete—at least not at the current exchange rate for the dollar.

III. The Foreigner's Edge

The problem probably comes down to this: In a number of industries that used to provide much of the U. S. export total, such as autos and durable consumer goods, Western Europe and Japan now have the mass production facilities, technology, and management methods pioneered in this country a generation ago.

U. S. companies have helped speed this development by establishing plants of their own in both Europe and Japan. In the same way, they are helping carry it into more advanced fields such as business machines, electronics, and petrochemicals. Perhaps equally important, business "missionaries" from the U. S. have spread the philosophy of high output for a mass market.

• **Cost Difference**—If such is the case, it seems obvious that European and Japanese industry have a real price advantage over a U. S. competitor when wages bulk at all large in the cost of a mass-produced item (including the original cost of the plant). And, of course, wages aren't the only cost that's higher in this country. So are management expenses, advertising, and perhaps a dozen other elements affecting prices.

Certainly the trend of U. S. exports and imports seems to suggest that the nation faces a tough problem in world markets—so tough that some Washington trade experts believe the U. S. will have to rely more and more on the export of agricultural products, certain industrial raw materials, and "innovational" products that arise from research and development too costly for the competition.

• **Inflation's Impact**—One crucial factor in determining the outcome will be the relative speed of inflation in the U. S. on the one hand and, say, Britain and West Germany on the other. If wages and prices increase faster in the U. S. than abroad, this country will be even more at a disadvantage. And this gap would put new pressure on the dollar even before it affects U. S. exports.

IV. New Boom Builds Up

Over the next year or two, the ability of both Europe and the U. S. to combat inflation at home will be severely tested. A new business boom is building up in Western Europe and Japan (page 24), just as it is here.

Apparently the upsurge is gaining more momentum across the Atlantic than in the U. S. In West Germany, for example, the boom already threatens to overheat. As a countermeasure, German monetary authorities could well tighten credit pretty drastically and make other moves to keep prices steady. But since a squeeze on money in West Germany would force Britain and other countries to follow suit—in a sort of bank rate war—Bonn may not push restraint too far.

• **Close Rein**—Despite the force of the boom, chances are the big industrial nations of West Europe and the U. S. will all keep about the same rein on inflation in 1960. If so, it would still be possible for the U. S. to enjoy a considerable export increase because of the cyclical upturn in European demand.

V. Remedying the Trade Gap

Of course, the Administration is doing everything it can to correct the payments deficit. At home, it's fighting inflation with a tight money policy. Abroad, it's pressing for a new financial balance with Western Europe and Japan —without disturbing the normal flow of commercial dealings.

This objective was behind the Administration's decision to require that a large part of its development aid funds "be tied" to the purchase of U. S. goods. Under the old rules, European and Japanese manufacturers had a chance to get the business—at U. S. expense.

In addition, the U. S. is urging Western Europe—especially West Germany—to contribute more capital to development projects, and to do it in ways other than just chipping in the required amount to the new International Development Assn. To make this stick, the U. S. may have to agree to coordinate development aid policies with the Europeans, perhaps through a new "Atlantic economic council."

• **No Favoritism**—The Administration also wants foreign countries to end their discrimination against U. S. goods—a hangover from the days of the dollar shortage. Here, too, the pressure is primarily on Western Europe and Japan. And the government is using its influence to see that U. S. exports don't suffer unnecessarily from the common tariff planned by the six-nation European Economic Community, or from any deal EEC might make with the seven-nation European Free Trade Assn.

The U. S. also hopes that all the major European currencies can be made fully convertible during 1960. This idea has the backing of the International Monetary Fund. If it goes through, along with steps to keep the tariff policies of Europe's trade blocs reasonably liberal, the free world will be close to the goals stated at Bretton Woods.

• **Help on Defense**—As a final remedy to the U. S. deficit, there's the new NATO exercise in "burden-sharing," under which the U. S. is goading Western Europe to pick up some of the defense costs that are now borne by this country.

VI. Banker to the World

In its new economic role, the U. S. almost certainly will be playing banker to the world in much the same way Britain did before 1914—except, of course, for the many political, social, and economic changes since then.

Many Americans envisaged this sort of role for the U. S. at the time of the Bretton Woods meeting. A strong U. S. currency would be the anchor for all other free world currencies, though the IMF, with its recently expanded resources, would absorb some of the strains of this task. The International Bank for Reconstruction & Development (now devoted entirely to the latter) would be increasingly important in supplying capital to underdeveloped nations. And the World Bank, whose regular resources have also been fattened recently, would offer "soft" loans to have-not countries through a new International Development Assn.

• **More Lending**—The big U. S. commercial banks are steadily upping their lending abroad, as a supplement to the dollars the government has been providing. As the government sheds more of its postwar financial responsibilities, the private banks can be expected to make up a good part of the difference.

In preparation for the U. S. role as banker, some of this country's leading money managers have been re-examining the workings of the gold standard in the days when London banked for the world. Does the present dollar exchange standard, they wonder, need to be modified to suit the 1960s?

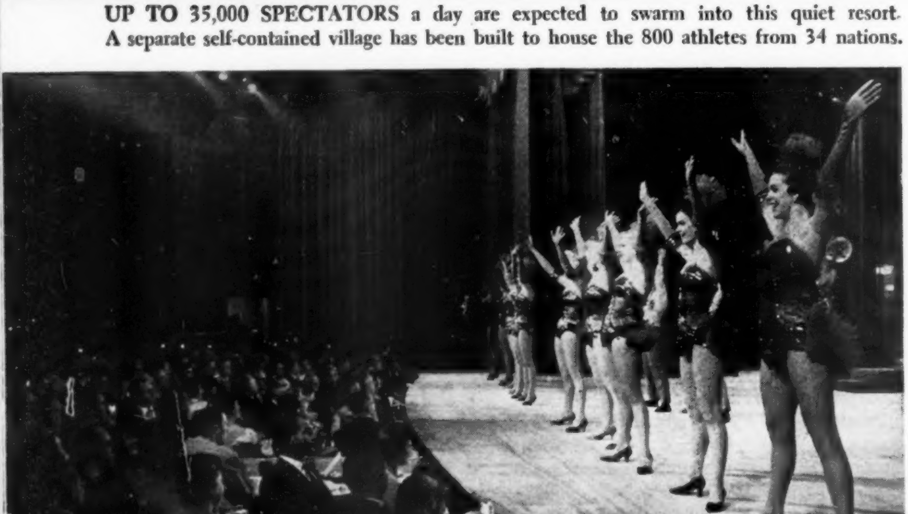
One possibility is that the U. S. might pay interest on gold kept in the New York Federal Reserve Bank by foreign central banks. This stock includes most of the non-U. S. gold in the free world. At present, the New York Fed merely holds the gold for safekeeping and charges a small handling fee. Paying interest might encourage the foreign banks to keep their gold here.

Another suggestion is for central banks to consult not just on interest rates, as they do at present, but also on whether a foreign country should turn its dollar holdings into gold. If a foreign central bank asks the New York Fed for advice on this subject today, the Fed simply says: "Do what you like."

Moves such as this would take the U. S. much closer to world financial interdependence than it has ever been willing to go. But they would not be nearly so drastic as some other proposals that have been mentioned, so far without much acceptance, to do such things as converting the IMF into a central bank for all the world's central banks.

OPEN-ENDED ARENA offers view of ski jumps and speed-skating oval outside, figure skating and hockey inside. Opening and closing ceremonies will be here, before 8,500.

UP TO 35,000 SPECTATORS a day are expected to swarm into this quiet resort. A separate self-contained village has been built to house the 800 athletes from 34 nations.



AFTER-DARK SPORTS will focus on Lake Tahoe and Nevada resorts that offer floor shows and, in Nevada, gambling. This night club opened Dec. 21 at Stateline, Nev.

Only Snow

BARRING REPEAL of the law of averages, the almost naked slopes of the Sierra Nevada will be under eight feet of snow on Feb. 18 when the Olympic torch lifts its tongue of eternal flame over Squaw Valley, Calif., to signal the start of the 1960 Olympic winter games.

Workmen are putting the finishing touches on the $15-million conversion of an obscure resort into the 1960 world capital of winter sports.

• **Ready for Anything**—Though resort operators and ski devotees were dismayed at the lack of snow, and one young enthusiast wounded civic pride by improvising his own ski run on a mountain of sawdust (below, right), Olympic officials would admit no worries about the weather. They're prepared for anything (pictures, right).

If too much snow falls on the majestic peaks that rim the natural amphitheater, the U.S. Forest Service is armed with 75-mm. and 105-mm. recoilless rifles and hand explosive charges to blast any menacing cornices and prevent avalanches.

If the snowfall is too light, Dr. Irving P. Krick, the Denver meteorologist and long-range forecaster, will seed any promising cloud formations with silver iodide crystals to induce more snow. Krick and his staff have spotted 10 cloud-seeding generators within a 50-mi. radius, and attendants can set them off at a moment's notice.

If even the clouds fail to materialize, Willy Schaeffler, director of ski events for the quadrennial competition, says the patches of snow dotting the hills could be redistributed to accommodate all but a few of the Alpine events.

"We won't have to do it, though," he adds. "Remember, we've seen as much as four feet of snow in 36 hours in this valley."

• **A Whole New Village**—Eight hundred athletes from 34 nations are expected to compete in the 11 days of ski jumping, downhill and slalom races, cross-country and biathlon (ski and shoot) races, speed skating, figure skating, and ice hockey. For the first time in the 36-year history of the winter games, a complete village has been built to accommodate the participants.

They'll even have their own postoffice—Olympic Valley, Calif.—and their own commemorative postage stamp. Permanent dormitories, a dining center, shops, entertainment—all necessary facilities—are nestled in a corner of the one-square-mile valley floor, and all within walking distance of the ski slopes and skating rinks.

Up to 35,000 spectators a day are expected to stream into the valley. Living accommodations on the site are limited.

s Lacking for Winter Olympics

Both of the hotels—the Squaw Valley Lodge and the Squaw Valley Inn—are reserved almost exclusively for games officials and the press.

The bulk of spectators will live outside the valley. The neighboring Lake Tahoe resorts and the city of Reno, 40 mi. east, will provide not only sleeping accommodations but also a variety of evening diversions, including top-notch entertainment (picture) and excellent food. Nevada also offers gambling.

• **Publicity Splurge**—The 1960 winter games are likely to be the most highly publicized in the history of the competition. Some 700 reporters and photographers of the domestic and foreign press and radio will swarm over the valley and its peaks. CBS television network, for a basic guarantee of $50,000 to the Olympic committee, got exclusive television rights and will produce a minimum of 16 hours of telecasts from the valley. So far, CBS has found no sponsor to help pay its $350,000 cost of the big show.

• **Industrial Role**—Several private companies are providing facilities without charge. International Business Machines Corp. is spending $250,000 and providing $500,000 worth of Ramac 305 computers and accessories to equip a data-processing center. Within moments, twin Ramacs will compute and print, for the press and spectators, race results that would otherwise require hours of human calculation.

Addressograph-Multigraph Corp. is backing up the IBM installation with $50,000 of duplicating equipment. The J. Walter Thompson advertising agency is serving the Olympic committee without fee as advertising consultant.

Longines-Wittnauer Watch Co. is providing $200,000 of high-precision electronic timing facilities.

The Hollywood touch will be evident in the staging of the colorful ceremonies, which has been left in the hands of a pageantry committee headed by Walt Disney, the film producer.

• **Matters of Money**—California, which stands to inherit most of the buildings and 1,000 acres of ground as a state park and permanent resort area after the games, put up $10-million of the financing. The federal government contributed $4.5-million, including the services of Army, Navy, and Weather Bureau personnel. Nevada, which will harvest the economic fruit of a swarm of visitors to its hotels and gaming tables, spent $300,000.

Reserved seats for the 11-day season are priced at $200, loge seats at $250. Valley tickets, admitting the holder to everything except the arena, are $60 for the season, $7.50 for a day.

TOO MUCH SNOW, and Willy Schaeffler (above), ski director, will order artillery shots to break up incipient avalanches.

TOO LITTLE SNOW, and housewives as far as 50 mi. away will start up cloud-seeding generators to spur snowfall.

NO SNOW TO SPEAK OF, and a local youngster uses a sawdust pile for skiing. Sawdust is stockpiled for use in compacting snow in a parking field designed for 12,000 cars.

THE VICE-PRESIDENT, free of primary worries with Rockefeller out, will mind his White House job till July while . . .

. . . THE GOVERNOR, without sufficient party support this time, waits for a possible better chance in 1964 or 1968.

Nixon Gets the Race to Himself

Vice-Pres. Richard M. Nixon quietly closed the door of his Washington office this week and went to Pasadena, there to bask in the pleasant duties of grand marshal of the Tournament of Roses parade.

There couldn't have been a more fitting way for Nixon to usher in the new year; it begins with every sign of being a year of destiny for him. Moreover, the trip marks a new phase in Nixon's drive for the Presidency, which began seven years ago when Pres. Eisenhower picked his name, seemingly at random, from a list of possible running mates.

• **Decision in Albany**—The new phase was signaled when Gov. Nelson Rockefeller of New York stunned political experts last week by withdrawing from the race for the Republican nomination. Rockefeller's decision changed the whole tone of Nixon's own campaign. Instead of a series of slam-bang primary fights, Nixon was left with a clear field.

His first reaction was typical—cautious reappraisal. He said nothing. Sunday he went to the Baltimore Colts-New York Giants professional football championship game in Baltimore as previously planned. Next day, a few close advisers such as Atty. Gen. William P. Rogers quietly came and went from Nixon's Vice-Presidential suite in the Capitol.

• **Defensive Tactic**—When he left for Pasadena at midweek, the new strategy was already clear. Speeches already scheduled would be delivered. But in the main Nixon would keep in the public eye by staying in Washington and filling the busy schedule of the Vice-President. The job has been remade by Eisenhower and Nixon into virtually a dry run for the Presidency itself.

The strategy, of course, is to make Nixon as elusive a target as possible for the Democrats between now and the active campaign for the White House from July to November. It is a defensive strategy, one calculated to preserve present strength. It does not fit Nixon's political philosophy, which is to conduct every campaign as though he were losing.

Aides are certain, though, that once he is the party's nominee and the Democrats choose a candidate of their own next July, the gloves will come off. Nixon then will go to the attack.

In one sense, Nixon may be disappointed. He had looked forward to running against Rockefeller in at least some of the forthcoming primaries—in New Hampshire on Mar. 8, in California on May 20, and possibly in Oregon on June 7. He was confident of victory and felt these contests would be good for the party and for himself.

• **United Party**—As it is, he is preparing to cash in on a situation that is rare in modern Republican history—a nominating convention that will not be preceded by a bitter party split. In 1932, when Herbert Hoover was selected for a try at reelection, and again in 1956, when Eisenhower won without a challenge, the party escaped serious bruising. But in the five intervening campaigns, there was bitter conflict between the GOP's Midwest old guard and Eastern wing. The Eastern wing won each time.

This time, there was no early rallying of the Eastern forces behind Rockefeller. Since the Midwest strongholds have long regarded Nixon as their own kind of candidate, he has the prospect of leading a united party.

• **Democrats Speak**—Even so, the situation may carry dangers for Nixon. For one thing, the Republican campaign could become dull and heavy-footed, lacking the zest of a lively convention. And, obviously, Nixon is a sitting target for the Democrats.

They were swift to react. Senate Majority Leader Lyndon B. Johnson, himself a candidate, quickly praised Rockefeller as an outstanding national leader. He even suggested straight-faced that when the Democrats take over the Presidency next year, Rockefeller should be offered a high position in the government.

Other Democrats argued that Rockefeller's withdrawal shows there is no place in the Republican Party for a liberal, and that the old guard is hand-picking Nixon to suit its own conservative aims. But these are expected bleatings of the opposition party.

• **Eisenhower's Heir**—Another problem may confront Nixon early in the campaign. As the unchallenged choice of his party he will inevitably be needled by Democrats on every issue that confronts the new Congress: civil rights, government spending, tax reform, school aid, health insurance, and—potentially most explosive of all if the steel strike is not settled—new labor reform legislation.

Party leaders acknowledge Nixon must accept and defend whatever Eisen-

hower does in his last year in office, with the hope that nothing happens between now and next November to lessen the President's popularity. A year ago, the Eisenhower mantle would not have meant so much to Nixon. The President's popularity had declined, foreign affairs were in an unhappy stalemate, and economic conditions at home were far from rosy. Today, Eisenhower is at the peak of his power and influence, peace has become a Republican byword once more, and prosperity seems certain to continue up to election time.

• **Differences With the Chief**—Nixon has differed with Eisenhower on such matters as a tax cut during the 1957-58 recession and the Administration's first reaction to the Russian Sputniks. He has lately pressed—in vain—to have Eisenhower ask Agriculture Secy. Ezra T. Benson to resign. Nixon and Labor Secy. James P. Mitchell have generally been more friendly toward labor than Eisenhower has. But Nixon has never allowed an open break to develop.

Now more than ever, it is political common sense for him to remain attached as closely as possible to the Eisenhower image. His popularity is Nixon's great heritage. This means he will have to accept pretty much what comes from the White House this year, even if he would be happier campaigning with a slightly different package.

On what is likely to be the overriding domestic issue, for example—economic growth—Nixon is probably closer to Rockefeller than to Eisenhower. Eisenhower is seemingly satisfied with the low recent rate. Rockefeller, in some of his recent speeches, talked about the possibility of achieving a 6% rate. Once Nixon is free to go more on his own, after the July conventions, he may well adopt this and other arguments from Rockefeller's generally more liberal economic policy.

• **Bowing Out**—Rockefeller, despite his withdrawal, is still a force to be reckoned with.

His decision was really an acknowledgement of the clear fact: Nixon right now is the leading candidate in either party and the man most likely to be the next President. Democratic professionals have been saying this among themselves for months. Rockefeller simply came to the same conclusion.

Rockefeller had an uphill pull from the beginning, and he knew it. His trip to the Midwest and Southwest last month failed to stir up unrest in the GOP rank-and-file. Party regulars came to his meetings wearing Nixon buttons. If Rockefeller did run into any real encouragement it turned out too often to be from mavericks nursing local grudges.

The trip itself probably was an error in political judgment. Rockefeller apparently thought he could melt opposition as he had done in 1958 when he made his first political travels in upstate New York as a potential candidate for governor but he overlooked the deep prior commitment of most Republican leaders to Nixon and underestimated Nixon's hold on the rank-and-file as well.

• **Another Chance?**—The positive, nohedging tone of his withdrawal, on the other hand, was part of a carefully devised strategy to side step second place on the ticket. If he had gotten into a series of primary fights with Nixon, party leaders could have argued that he had an obligation to accept the Vice-Presidency to heal party wounds. By quitting early, he can point out that he caused no wounds.

By freeing himself of any obligation to accept the No. 2 spot, he can challenge again in 1964 as a Nixon critic.

"Sooner or later," said New York State GOP Chmn. L. Judson Morhouse this week, "Rockefeller will be President." Political professionals suspect the same thing. Whether that is true or not, Rockefeller obviously is destined to play an important role in the national Republican Party from here on.

Output Grows Faster Than the Figures

Revision of the Federal Reserve Board's index of industrial production shows the old statistics as too low.

U.S. industrial production has been growing faster—and the productivity of workers rising faster—than anyone but a handful of experts has suspected.

Moreover, the swings in production between boom highs and recession lows have been greater.

These findings were made official this week when the Federal Reserve Board released a revision of its index of industrial production—far and away the most widely followed guide to what's going on in industry. The revision is the first since 1953, and it is substantial. The level of the new index is about 8% above the old.

The old index stood at 155 in June—the high before the steel strike scrambled the picture for both businessmen and indexers. The new figure for June is 166. Both series are on a base under which 1947-49 equals 100.

By now, the index is close to its old highs. The board puts the level of its new index at 156 for November, when recovery from the steel strike was getting under way. The December figure is expected to be near the midyear peak.

• **What Did It**—Broader coverage and new information boosted the index. About one-third of the gain comes from adding a new category—electric power and natural gas—to the index. Covering these measures of the huge use of energy in the U.S. will make the index more comparable with those used in other countries.

About two-thirds of the rise comes from feeding new data into the index as a whole. The statisticians have added some new series and adjusted all their figures to the levels shown in a comprehensive 1954 Census of Manufacturers and other census surveys. They worked out new seasonal adjustments and overhauled their classifications. Finally, the weights that reflect the importance given any product in the over-all index were revised to reflect 1957 prices. This, for example, gives steel and autos more heft—their prices had been rising faster than prices of other products.

While the board's statisticians were at it, they grouped the subgroups within the index a new way—into consumer goods, equipment for business and government, and materials. The new groupings make it easier to trace the way various sections of the economy have been performing.

• **The Results**—For the 12 years covered by the revised index, the new figures show an average annual growth of 4.1%. Production grew faster in the first part of the period—the U.S. was still catching up on World War II shortages and then had to arm for the Korean War. For consumer goods, though, the average rate of growth has been consistent at about 3.7% a year since 1947. The old figures put the growth in consumer goods at about 3%.

Over-all, consumer goods have grown 58% in the 12 years, 1947 to 1959. The population, meanwhile, has grown about 23%—so there's been a real and substantial increase in production per customer. But the board's figures show wide variations in the way products have done over the years. Air conditioners, television sets, clothes dryers, and boats have all gained 400% or more. Drugs and medicines have more than doubled. Shirts, soft drinks, and gasoline are all up 80% or more. But stoves, woven floor coverings, men's suits, and home radios are below their 1947 production levels.

• **Cycles**—The board's new series throw a great deal of new light on the ups and downs of the entire economy and of certain lines.

In the recession years of 1957-58, for example, the new total index shows a decline 2% greater than the old figures did. In fluctuations since 1947, the swings in output of materials have been wider than those in finished products.

Free World Bets on a Good Year

The year ahead will be one of rising business activity not only in the U. S. and Canada but almost everywhere in the free world—in Western Europe, the Middle East, India, Japan, Australia, and most Latin American countries.

World trade probably will be at record levels, with international demand for manufactured goods, raw materials, and food showing even more strength than in the 1955-56 boom. This promises a better break for the primary producers, who have suffered a serious drop in export income.

• **Competition**—With business activity high almost everywhere in the world, American companies with overseas operations undoubtedly will chalk up record sales and profits from their foreign-based production facilities. U. S. exporters will have an opportunity to get this country's export sales back on an upward curve (page 70). But whether an American company is selling the world market from a plant in the U. S. or from a plant abroad, it will meet plenty of competition from European and Japanese producers.

• **Keeping Pace**—The new business boom now under way in Western Europe began to develop last year under the impact of a rise in consumer spending. At the same time, an inventory

THE SHAPE OF '60

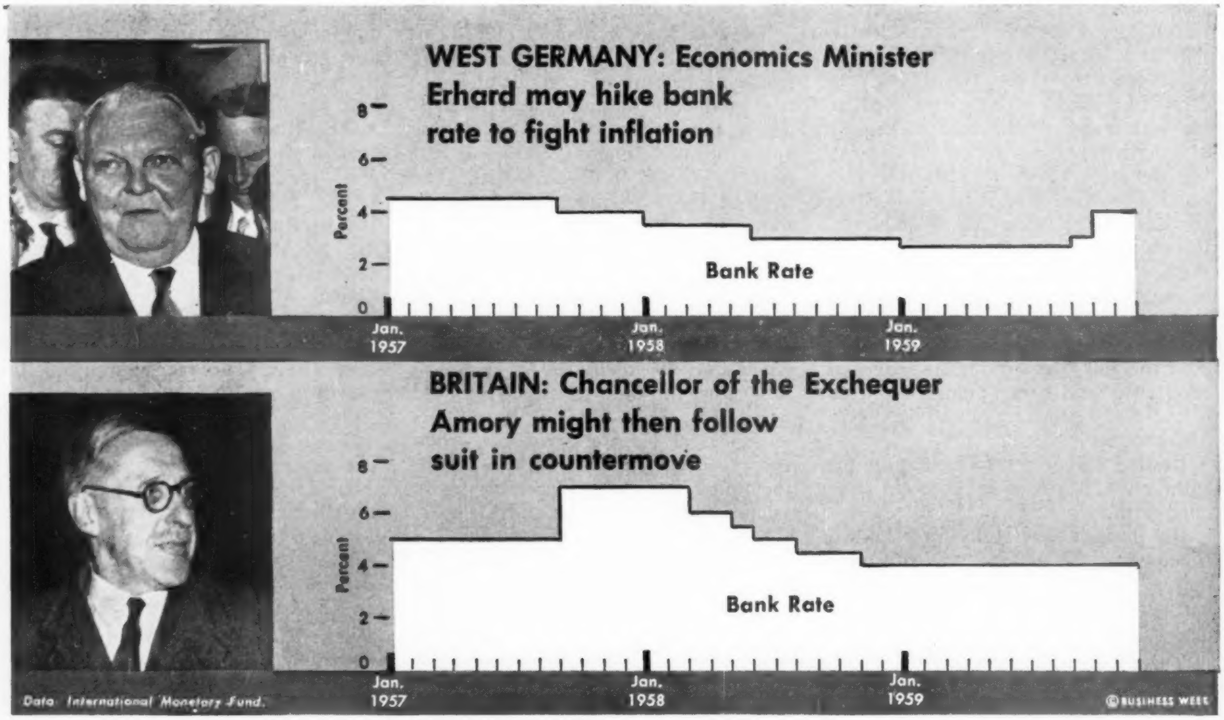
buildup developed, and now an expansion in plant investment is under way.

In Western Europe, the big problem will be to match the expansion in industrial production with reasonable price stability. Thus, the possibility of tighter credit, especially in West Germany and Britain, lies in the background of the European boom.

Prosperity in Japan closely parallels that in Europe, although there is some lag in the development of a Japanese mass market for consumer durables. And for Japan an expansion in world trade is important.

For the underdeveloped countries, notably India, 1960 will be another year of uphill struggle against poverty and a growing population. The key problem in India's up-coming Five-Year Plan, as in the two previous ones, is to get enough capital for solid economic development.

Back in this hemisphere, inflation and political instability still hamper the economic development of most Latin American nations. Mexico is the great exception on both counts, though far to the south in Chile and Argentina there's now hope of stable government and more orthodox economic policies.



Europe's Boom Rides High

It's the three biggest industrial nations in Western Europe—Britain, West Germany, and France—that set the economic pace for the area as a whole. Here's the 1960 outlook for the three as reported on the spot by BUSINESS WEEK's local correspondents:

In Britain, most businessmen are in a bullish mood—so bullish that Chancellor of the Exchequer Amory now frets about how to maintain the upward curve during 1960 without running into inflation and a return of the country's balance of payments difficulties.

Industrial output last year was 6% above 1958. But since production then was climbing out of a mild recession, the rise in 1960 won't be so steep. Consumer buying this year can hardly rise at last year's rate, nor will inventory accumulation. But capital goods spending now is taking up part of this slack, as industry broadens its investment plans partly as a result of the confidence engendered by last October's Conservative election victory.

Europe's trade split—between the European Economic Community and the European Free Trade Assn.—won't have much effect on Britain's growing

exports to the Continent. Elsewhere, the export outlook is bright. Sterling area countries are leading the general pickup among primary producers. Further gains in U.S. and Canadian markets seem certain. Meanwhile imports have been rising at a slightly faster rate than exports,

The first half of the year should tell the tale on inflation—and on how firmly the government will live up to its refrain of "The strength of the pound comes first." So far, the government has limited itself to warnings. Labor has been asked to keep down its demands for higher wages and a shorter work week, and business to hold down its profits. In fact, Amory privately has been pressuring business to cut prices in the many cases where there have been large gains in productivity.

If necessary to keep wages and prices in line, the government seems ready for sterner measures. And these might be applied, including an increase in the bank rate, even if there were no serious threat of inflation immediately in the offing in Britain. A change of British policy could come simply in response to a tighter credit policy in West Germany. If the Germans raise their bank rate once more (charts), the Chancellor of the Exchequer may decide to follow suit. He would do this to make certain that British industry doesn't lose any competitive strength vis-a-vis German industry and also to prevent the withdrawal of money from London. The October hike in the German bank rate led to a flow of funds from London to West Germany.

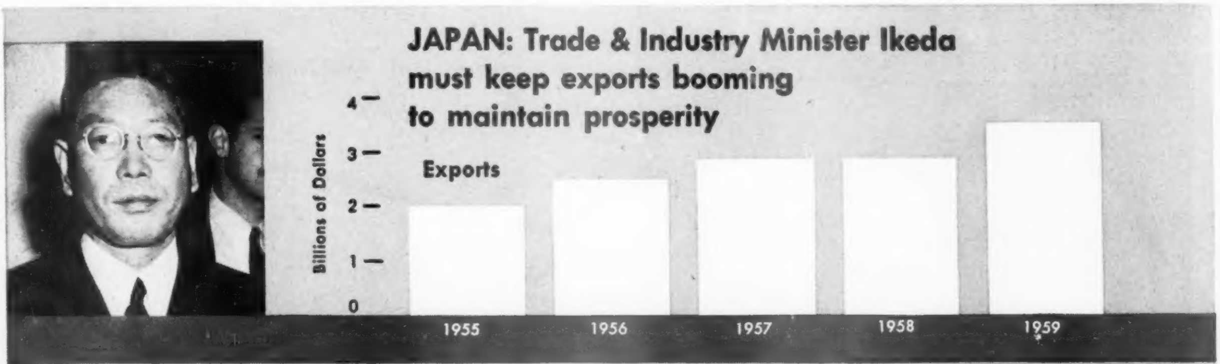
In West Germany, American businessmen who are prepared to do some old-fashioned selling can cash in on that country's continuing prosperity. That's true for U.S. exporters as well as for companies that have capital to invest in German production facilities.

But Economics Minister Erhard may decide before too long that West Germany's prosperity has become too much of a good thing. The German gross national product, which reached \$56-billion in 1959, will be pushing \$60-billion for 1960. Investment in plant and equipment is continuing at record or near-record levels. So is consumer spending. As an exporter, the Bonn Republic is running neck and neck with Britain for the world's number two spot behind the U.S., and it has bulging order books to help it.

All this adds up to a tight labor market, with skilled refugees from East Germany unable to fill the demand for labor. Thus, the pressure for higher wages is reaching a peak. An increase in wages, and in the cost of living, are expected within a matter of months.

In France, businessmen, after living through more than a year of unusual financial stability and restraint under the de Gaulle government, now are talking expansion. There's a feeling that output and profits may return in 1960 to the level of 1957, the last year when French business found the going easy.

Recent polls of top management reflect the growing optimism. Businessmen now are predicting a pickup all along the line. The optimism is based mainly on the investment plans of private business, which are expected to push private capital spending up 8% during 1960. (In 1959 private investment dropped 1%.) Back of these larger investment plans lies the stimulus of competition within the European Economic Community. Another explanation is the expected rise in private consumption. After dropping in almost all categories last year, an increase of 5% seems to be in the cards for 1960.



Asia Seeks Markets and Capital

By contrast with Western Europe, free Asia's economic growth runs the spectrum—from industrial Japan to underdeveloped India (chart). Japan's problem for 1960 is how to keep finding markets for its fast-expanding industry. India's headache, which it will have to live with for a long time, is how to get enough foreign private capital and economic aid to raise living standards from rock bottom.

But between the extremes of Japan and India are other countries that are looking to 1960 for economic growth. Some, such as South Vietnam, depend heavily on U.S. aid—and that is more likely to decrease than increase. Besides that, politics in most of these countries will determine whether economic growth will move fast or slowly.

Pakistan's Pres. Ayub Khan cleaned

corruption and rushed a land-reform program last year after taking power in late 1958. Now the country also is reaching an agreement to share development of the Indus River with India.

On the other hand, Indonesia's economy is stagnating. After expropriating Dutch businesses, the Soekarno government today is putting pressure on local Chinese—the country's main traders and retail merchants.

Yet the nearby continent of Australia is in the midst of boom times. Bolstered by an expanding consumer credit and steady U. S. investments, industry is operating at record levels. And the first stages of the $1-billion Snowy Mountains hydro project are complete, with the prospect of more power.

To see Asia's mixed outlook on 1960 more closely, take two examples:

Japan is riding a wave of optimism. Industrial production last year rose between 20% and 25% over 1958. Exports topped $3-billion. The government planning agency already is revising its growth-rate estimates for the 1957-62 period—from 6.5% planned to nearly 8%.

What's worrying Japanese businessmen is the possibility of any downturn in the world economy. Their exports would feel it first. Then, the Japanese are also concerned over the growing protectionism and regionalism in world markets. A key worry: the No. 1 market in the U. S., which absorbed about $1.2-billion of Japan's exports last year, but now may trim purchases.

Some economists are fretting over Japan's investment spree. Planned capital investment for this year is 30% above last year's. Gold and dollar reserves are at an all-time high. But the investment boom, with its demand for imported raw materials and equipment, may lower reserves. This could even produce a foreign-exchange crisis—say some observers—like the one after the 1956-57 spending spree.

Indian businessmen are happier than at any time since independence in 1947. Fears of war with Communist China, of course, have clouded the picture. But businessmen see bright signs in:

• Sizable loans from the U. S. and West European countries for the completion of the second Five-Year Plan.

• Increasing influx of private foreign capital, particularly from the U. S.

• End of tax hikes on businesses by the Delhi government.

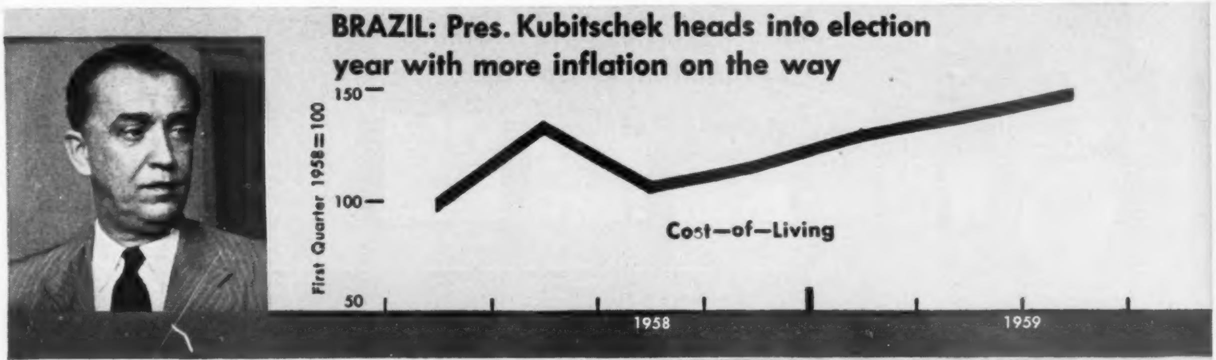
• Leveling of wages—at least at the present time.

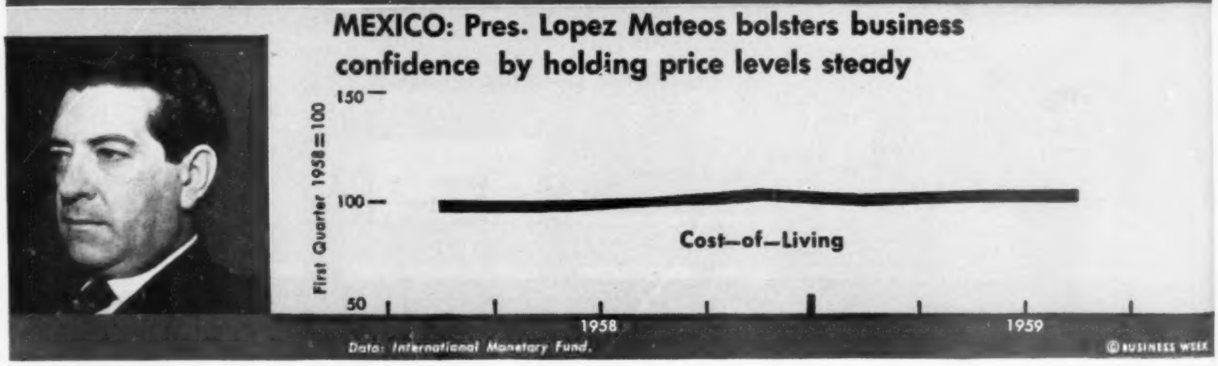
There are other reasons for confidence, too. The raw-material shortages that plagued business last year appear to be easing up. The money supply is enough to meet industry's demands, partly because of Delhi's restrictions on imports that would boost demand for more credit.

On top of this, the political climate is improving for businessmen. The ruling Congress Party has tempered its enthusiasm for cooperative farming, instead put more emphasis on milder socialistic answers to India's food problem. The government, in its pronouncements and decisions on economic development, has shown more interest in encouraging private enterprise.

One sign of change is the formation of the new Swatantra Party—a party of businessmen, small farmers, and professional men. With this has come a new atmosphere, highlighted by Red Chinese encroachments and Pres. Eisenhower's visit, favoring closer economic ties with the West.

But the main problem will be fulfilling the third Five-Year Plan (1961-65). The $21-billion plan will require huge injections of foreign capital. Yet both businessmen and officials feel confident that they will get the money.





Latin America Pushes Industry

"One-crop economy" is slowly becoming an outdated phrase in Latin America. For the 20 countries, from Mexico to Argentina, are changing their traditional economic pattern—away from commodities to manufactured goods.

The big thing today is diversification—in both industry and trade. Latin countries don't want to be so dependent on trade with the U. S. They favor increased trade with Western Europe, and even some trade with the Soviet bloc. More important, they are pushing industrial development to gain greater self-sufficiency.

• **Bumps**—The campaign to industrialize in Latin America, coupled with the demand for higher living standards, isn't

. . . American companies will chalk up record sales and profits from their foreign-based production facilities . . .

(STORY on page 24)

running smoothly in all countries. Look at just two examples:

Mexico (chart, page 26) is following a balanced approach toward economic development. It is trying—mostly with success—to hold down prices and wages. At the same time, it is pushing tourism (a top money earner), consumer-goods manufacturing, and oil production. Brazil, however, is letting its chronic inflation run free. And there's no real prospect for tough controls, particularly with a presidential election next fall.

• **A Move to Diversify**—Historically, of course, Latin America has exchanged raw materials for manufactured goods, largely through trade with the U. S. We are still the largest single customer for Cuban sugar, Honduran bananas, Chilean copper, Brazilian coffee, and Venezuelan oil.

But Cuba, for one, is attempting to diversify under the often violent, erratic leadership of Premier Castro. Then, Venezuela is copying Brazil's industrialization drive by encouraging foreign companies to build local plants. Argentina is doing the same.

The U. S. is sharing in Latin America's push toward economic growth. The Administration has agreed to support the $1-billion Inter-American Development Bank. Private companies and investors already have put over $9-billion into Latin America. And this outflow, though now proportionately less than new investments in Western Europe, is continuing at a fast clip.

• **Economic Nationalism**—Still, Latin America's desire to diversify has changed the atmosphere in which U. S. companies normally do business throughout the region. For industrialization has aggravated traditional nationalism in many countries.

The old political nationalism has given way to economic nationalism. Both Cuba and Brazil are prime examples. They repeatedly attack "Yanqui interests" as a purportedly domineering force in their economic life. They admit they need U. S. private capital, but —in the same breath—play up their need for European capital.

To some extent, economic nationalism is leading to—and overlapping with —economic regionalism. Latin America is shooting for a common market similar to Western Europe's. Five Central American countries already have started one. Other countries, such as Argentina, Brazil, and Chile, are debating formation of one.

Any fully operating common market for Latin America is far off. That's because the countries, despite a common desire for economic improvement, are radically different from each other— in size, resources, political attitudes, and economic problems.

• **Four-Nation Outlook**—You can see that in the 1960 business outlook for four of the leading countries:

Mexico is speeding up its drive for new industry. It has put tariffs on all imports that compete with domestic manufacturing. It has cut down U. S. imports, in favor of local manufacturing. Beyond that, it is turning more and more to West Germany, Japan, and other countries—for both imports and fresh capital. Still, the government offers U. S. industry some tax concessions. And for U. S. companies operating in Mexico, profits generally are high.

Pres. Lopez Mateos, now one year in office, has put the economy on a fairly even keel. There's no talk—as in previous years—of a peso devaluation. Last year, the government stalled on wage increases to meet the slight rise in living costs. This year it probably will O.K. wage hikes—in view of stepped-up production. Along with this, the country's gold and dollar reserves have been strong enough to allow early repayment of $10-million to the Export-Import Bank and $22.5-million to the International Monetary Fund.

One boost in business confidence for the year ahead will come from record-high government spending. The $800-million expected to be poured into highways, schools, irrigation projects, and port facilities should help stimulate the retail trade—which was sluggish last year.

Venezuela, recently rocking through financial troubles, now is hopeful about 1960. Oil output last year hit record levels (though the worldwide drop in prices hurt). This year, output will go up a moderate 5%. Caracas observers expect the country's dollar income to run just below the 1956-57 boom years, when oil companies paid cash for new concessions and filled post-Suez oil shortages.

What hurt most last year was the splurge on imports and a temporary flight of capital—due to labor and political unrest. Gold and dollar reserves dropped to an uncomfortable, but not critical, $700-million. At the same time, the oil industry slowed investments because of excess capacity and the earlier hike in taxes.

Now both the economy and political scene seem to be stabilizing. Import restrictions are forcing U. S. companies to produce inside the country. Pillsbury Co. and H. J. Heinz are among recent arrivals. Philip Morris, Inc, has bought into a local company. And Venezuela's licensing of car imports may lead to construction of more foreign-owned assembly plants.

Brazil's inflationary spiral will keep spinning this year, with wages chasing after rising prices. But any serious social unrest because of inflation doesn't seem likely.

During the elections, the politicians will call for curbs on profit remittances by foreign companies and expropriation of foreign-owned utilities. But the rate of new foreign investment into Brazil's potentially rich economy indicates that few U. S. businessmen are seriously worried. And there's another consideration: So many Brazilian businessmen are linked in joint ventures with U. S. companies that they would oppose any tough restrictions on foreign capital.

So far, Pres. Kubitschek has resisted strong pressure to loosen the government's purse strings for election purposes. He's likely to continue the relatively tight money policy of the past two years. But the government presses keep printing new cruzeiros—and helping inflation along.

If the recent international agreement on coffee holds up, Brazil's coffee exports should continue high. That would bolster the present economic boom But Sao Paulo observers believe that a period of retrenchment and stabilization may follow the fall elections.

Argentina has gone through the first phase of its austerity program. This year will bring the showdown—when the belt-tightening program is tested in congressional elections.

Economics Minister Alsogaray has won a lot already. He has started cutting the government payroll. He has put curbs on imports. He hopes to reduce the budget deficit this year from $330-million to $185-million. On top of that, the country's trade picture is brightening, with exports and imports slowly coming into balance.

With austerity, of course, Argentina has faced gloomy times. The industrial production index slumped last year to the 1952 level. Construction, an important industry, contracted between 50% and 60% compared to 1958. And strikes, slowdowns, and even complete shutdowns hit many companies, from Goodyear Tire & Rubber Co. to Swift & Co.

But the program to develop Argentina's oilfields, with U. S. help, is going full swing. The government also just won a new $300-million loan package to help stabilize the economy. Thus, unless Peronist workers stir serious trouble this year, the Frondizi government may get the economy humming again.

Stores Have Green Christmas

● Retailers garnered more dollars than ever before from holiday shoppers, with gains averaging 3% to 20%.

● Even so, some merchants expressed disappointment that the increases were not higher.

● But most stores are looking forward to 1960, expecting to ring up a new sales gain of 4%-5%.

Retailers this week lifted their glasses in a toast: "The consumer, God bless him." Once more, with few exceptions, holiday sales pushed to new peaks.

A fast survey of some 15 cities brought almost unanimous reports of gains. Mostly, the gains were not spectacular—3%, 4%, or 5% were mentioned most frequently. In a couple of cities, several stores had to be content with sales even with last year, and individual gains varied from 0.5% to 20%. Milwaukee, a standout exception, reported over-all gains, but hardly any records. The shopping centers got too much of the gravy. But the preponderant comment came resoundingly: The best Christmas and the best year in history.

Even cities where the steel strike had laid a heavy hand pulled through. Pittsburgh—with the added complication of a trolley strike—still probably gained 3% to 4% over 1958. Birmingham department stores squeaked ahead with about a 1% gain, though furniture store sales zoomed some 12%, and appliance stores between 5% and 8%.

• **Good But Disappointing**—Uneasiness over the steel picture got the blame for gains that failed to measure up to expectations in some cities. Cleveland stores reported "plenty of muscle" in Christmas buying, but stores that had hoped for 8% or 9% gains reported 3% and 4% rises instead. Detroit's sales were "much better than last year's"—Federal Revenue figures indicated it led the Midwest in department store gains—but still not up to hopes. Portland, Ore., with increases ranging from 4% to 10%, found some disappointed merchants who had looked to do better. But Portland had its own special trial: a newspaper strike.

If the new records brought disappointment to some, they brought sighs of relief from other quarters. Los Angeles, fretting over a slow December start, wound up agreeing that it was the best Christmas yet. Boston stores, while not wildly elated with their modest gains, still reported that they did better than they had expected, with downtown sales some 4% to 5% ahead, and suburban stores 6% to 7% ahead. A Christmas week upsurge pushed Chicago department stores a bit ahead of last year, appliance stores 15% ahead.

New York stores, chary with figures, chalked up gains at just about all price levels, from swish specialty shops such as Bergdorf, Goodman to the great department stores. Yet here, too, a record performance brought divided reactions. F. A. O. Schwarz, luxury toy store, was a little disappointed despite gains in most of its stores. Lord & Taylor's president, Melvin E. Dawley, on the other hand, was glowing. "We reckoned on a moderate gain," he said, "and the actuality was twice as good as our estimate." R. H. Macy cited a record year for the corporation, a record year for Macy's-New York with its branches, and for the big downtown store.

• **Downtown Profits**—Abraham & Straus made the same point. It was happy at an over-all gain, but particularly happy that its downtown Brooklyn store moved ahead. Lord & Taylor was another to cite downtown gains. And Boston merchants were pleased that the gap between suburban and downtown gains was closing.

• **Dreams Come True**—Miami was frankly lyrical. All the rosy dreams of a few weeks ago (BW—Dec.12'59,p25) came true. Here, gains of 10% were common, with some going to 15%. "The finest Christmas we've ever had," department and appliance stores commented. Others echoed relief that the tapering off some feared never came.

A few retailers admit that their inventories are a little heavier than last year. But they point out that wholesale prices aren't going down, so their inventory will appreciate in value. Few saw any prospect of heavy post-Christmas sales to unload.

In fact, in several cities—Milwaukee and New York, for example—some retailers were bemused by what they described as "fantastic" or "spectacular" sales on the Saturday after Christmas. Thrifty Milwaukeeans were buying Christmas cards, candies, and toys, heavily marked down. Some stores advertised big sales for that day, but often the crowds just came anyway.

• **Hardgoods Do Well**—What sold this season? The answers cover the waterfront. Softgoods did very well, reports Abraham & Straus, and so did major appliances. J. L. Hudson reported that appliances and home furnishings held up surprisingly well. Several stores reported a curiosity: Normal year-round sellers, which often lag at Christmas, kept right on selling through the holiday. Big ticket items—jewelry, furs, expensive toys, home furnishings—sold strongly. Polk Bros., in Chicago, reported radios, stereo, hi-fi, and organs topped last year.

Most retailers—though not all—felt customers were willing to part with more cash per item. Few noticed any real price resistance.

• **Emphasis on Quality**—But all agreed on one point: Consumers demanded quality—wherever they bought. They were equally intent on the unusual, the imaginative item. Bloomingdale's board chairman, J. Edward Davidson, credits the demand for the different gift with the strength of sales of imports.

Quality did not always mean the extra-plush item. Customers bought the functional rather than the tinsel, one merchant commented. Most felt that this winter's spending public was not in an extravagant mood. "Sure, there's the Texas oil man who is disappointed because the $350 doll house is the best he can buy," says F. A. O. Schwarz's president, Philip L. Kirkham. "But he's the exception."

But upgrading developed strong early in the year, several retailers point out. In fact, one reason Denver gave for disappointment that Christmas sales rose no more than they did was the growing upgrading that marked the whole year. There seemed to be less extra splurge for gifts.

• **1960 Looks Good**—Most retailers talk cheerfully of more gains in 1960. Rich's, in Atlanta, for example, with a 10% gain for 1959 (counting its new Lenox Square branch), expects another 4% to 5% increase in 1960—and most retailers are of a like mind.

But, like the rest of the economy, retailers are working in the shadow of steel. Most of them feel that sales gains are pretty sure for the first half of next year. Beyond that, the labor picture will tell the story. Some stores are already planning on tighter inventories as a precaution.

Right now, though, they are shooing that specter away. "If spending fell off among those affected by the steel strike" says a St. Louis department store manager, "those in the stock-dividend class made up the difference. I'm well satisfied with 1959's Christmas."

STEEL negotiators McDonald and Cooper traded accusations at government hearing as . . .

Steel Dispute Hopes Fade

The Presidential board of inquiry in the steel contract dispute resumed public hearings the first of this week—but with no real hope of a settlement before the start of Taft-Hartley "last offer" elections in about 10 days. If anything, the parties were frozen more solidly to opposed positions than when the board last met in October.

Monday afternoon, a grim-faced Dr. George W. Taylor, chairman of the three-man public panel, announced that his board sees no point in a mediation role at this time; it will stick to its statutory role. That is, until after the employee voting required under the Taft-Hartley Act, the panel's activities will be limited to fact-finding.

• **Fact-Finding**—Both sides thought—and the industry perhaps feared—the Taylor board would have some new tricks up its sleeves for the hearings this week, possibly recommendations. If it did, it didn't show them in two days of union and industry presentations on the current positions of the parties. It limited itself to efforts to cut through confusion on what steel employers actually are offering steelworkers.

Union and industry spokesmen clashed sharply this week over the proffered terms. Their disagreement was marked by anger and bitterness—and brought a scarcely veiled threat of a new steel strike in late January.

• **Union Charges**—In the opening day of hearings, USW Pres. David J. McDonald talked of "weasel words" in company offers, particularly those of insurance terms. He criticized the offers as "just propaganda documents," and impugned the good faith of the companies—charging that they circulated one set of offers to employees, placed another before the union.

• **Industry Retort**—On the second day, industry spokesmen led by R. Conrad Cooper of U.S. Steel criticized the USW for seeking to impose "even more burdensome terms" on the industry earlier this month, in the face of "an urgent need for a settlement that would eliminate the economic uncertainties arising from the continuation of this dispute."

• **Consequences**—As a result of the new flare-up, union local officials concentrated in Washington last weekend were sent home with instructions to "work as diligently as you can to roll up the biggest vote possible against the companies' last offers."

The National Labor Relations Board will poll a half-million steelworkers on their employers' settlement terms between Jan. 11 and 13, (BW—Dec.19'59,p25), provided there is no settlement before then.

The United Steelworkers conducted its own poll, by postcards, and announced this week that 95% of those responding voted "no" on the companies' terms.

The USW leadership says it wants a "conclusive 99% vote."

The industry predicts a "substantial" vote to accept the companies' terms. Its campaign to persuade employees to vote "yes" in the NLRB polls will be stepped up. But, privately, many in steel management admit they are less confident than they were earlier.

The NLRB hopes to announce the results of the election in mid-January. The Taft-Hartley strike injunction is due to run out Jan. 26, and USW will be free to strike again.

• **Strike Outlook**—What's the outlook for a strike then? In Washington, there is a conviction—perhaps more a belief—that steel will continue to be produced after the injunction period. Government people close to the bargaining feel that if there is a conclusive vote to reject the companies' offers, strong efforts to compromise the industry provision will be more fruitful than they have been up to now.

The union is even more confident: "The bosses will give in," a spokesman said early this week, when asked what will happen if the "no" vote is big.

But what if they continue to hold out? McDonald said this:

"Steelworkers will be free again. But let no one assume how they will use their freedom. The Taft-Hartley Act can tell us when not to strike. It cannot tell us when we will strike—or whom. . . . That decision will be made . . . when the time comes."

This received quick interpretation as a hint that the union might strike the industry piecemeal, in a divide-and-conquer strategy. This would not be in the United Steelworkers tradition, but tradition might give way in a struggle as big and crucial as the present one. The industry could counter by a complete shutdown—in effect, a lockout of all nonstriking steelworkers. Or, it might effectuate a paper mutual aid plan by which a struck company would be "insured" against strike losses (BW—May16'59,p26).

The union isn't worried about a lockout of nonstrikers; those affected would be eligible for state unemployment compensation. It isn't particularly concerned about the operation of a mutual aid plan. It is concerned about the attitude of steelworkers—any group of steelworkers—toward another walkout.

A few days ago the president of a large Big Three local admitted that he couldn't be sure of his members' reaction to another strike call; they're mad enough to vote "no" in an election—and they're more solidly for the union, against the company, than when bargaining began last spring—but another strike would be a very serious step for them, the local official said.

This uncertainty could mean no strike, not even a partial walkout, when the injunction expires—but a threat to walk out at any time, with or without notice, after January if there is a breakdown of further bargaining. Again, this is against tradition. Steelworkers have never struck in a way that endangered company production facilities.

In Business

• • •

U. S. Accuses Renault and Peugeot Of Fixing Prices, Restraining Trade

Renault, Inc., and Peugeot, Inc., U. S. subsidiaries of French auto companies, were served this week with a civil antitrust suit by the Justice Dept. Sixteen distributors are also named in the suit, filed in New York.

According to the Justice Dept., the defendants conspired to stake out exclusive sales territories for 700 dealers and to fix prices. Retail sales of Renault in 1958 are estimated at \$76-million, of Peugeot \$9-million.

Robert A. Bicks, Justice's antitrust chief, says the suit "should permit Renault and Peugeot to compete more advantageously for consumer preference."

A Renault official noted that, even after doubling their 1958 pace, Renault sales in the U. S. make up less than 2% of total sales. "Renault and other imported cars," he said, "far from creating monopolistic conditions, have stirred up some of the liveliest competition in automotive history." Peugeot also said its "vigorous marketing has introduced a healthy trend toward increasing competition in the automobile industry."

• • •

Monsanto and Heyden Chemical Settle Row With M. W. Kellogg Over Methanol Plant

Peace has descended on the methanol (synthetic wood alcohol) plant that Monsanto Chemical and Heyden-Newport Chemical operate together at Texas City. In a joint statement, Monsanto and M. W. Kellogg Co. announced that they had settled all differences over the plant and were dropping their counter suits.

Kellogg, a subsidiary of Pullman, Inc., built the \$6.5-million plant for the chemical companies. Last January, Kellogg sued them for \$651,000 it claimed was still due. **The chemical companies fired back with a \$9.5-million damage suit, claiming "extraordinary and inexcusable delays"** by Kellogg in building the plant, which, they charged, never achieved promised capacity due to faulty design.

In April, the New York State Supreme Court ordered the parties to arbitrate their differences, and slapped restraining orders on the suits. The present settlement followed.

• • •

Four Cities, Co-op Send Proposals On AEC's 16,500-Kw. Power Reactor

Four municipalities and one cooperative have submitted proposals for construction of a 16,500-kw. pressurized water reactor, in response to the Atomic Energy Commission's bid of last August. **Proposals came from Detroit, Miamisburg (Ohio), Fort Pierce (Fla.), Jamestown (N.Y.), and the Dairyland Power Cooperative, of La Crosse, Wis.**

Under the law passed last summer, AEC would build a reactor while the municipality or co-op would buy the steam, provide turbogenerating facilities, and operate the plant. As an option, nuclear superheating could be installed to step up capacity to 22,000 kw.

Gibbs & Hill has been picked as architect-engineer for this second round of AEC's cooperative power demonstration program.

AEC has also received a joint proposal—unsolicited—from Consumers Power Co. of Jackson, Mich., and General Electric to build a 50,000-kw. boiling water reactor for a nuclear power plant at Big Rock Point, Mich.

CPC estimates the capital costs at \$27-million, and asks AEC to pay research and development costs and to waive some fuel charges, because of the plant's value in developing later and larger nuclear plants.

• • •

The War for Tire Fiber: Can Rayon Match Further Price Cuts by Nylon?

The new price cuts in nylon tire fiber, initiated by du Pont, have raised a major question in nylon's fight with rayon for the big market in original tires for new cars:

Can the rayon suppliers afford many further price cuts, if nylon decides its profit margins can stand still further slashes?

In the latest cuts, du Pont was quickly followed by the other nylon majors, Chemstrand Corp. and Allied Chemical, with reductions in the range of 5¢ to 9¢ per lb.

Rayon makers hit back at once. Beaunit Mills and American Viscose knocked 5¢ a lb. off the price of Tyrex, the rayon cord that is used in original tires for most 1960 cars. Du Pont, which also makes a rayon cord, cut this by 5¢, and all other makers—in both nylon and rayon—have no choice but to tag along. The problem is: For how many more rounds can they tag?

Right now, nylon cord, for both cars and trucks, is down to 97¢ per lb., compared to rayon at 57¢ for cars and 50¢ for trucks. But it takes less nylon to do the job—1 lb. as against 1.7 lb. of rayon, according to nylon suppliers.

The trade thinks that the nylon makers can afford to cut deeper than their rivals without going into the red. Some rayon makers will be able to stay the course, it is said, but others are likely to be forced right out of the tire business.

• • •

Business Briefs

Cigarettes and razor blades will share corporate lodgings, if the merger discussions of Philip Morris and A.S.R. Products—formerly American Safety Razor Corp.—bear fruit. The proposal would exchange one share of Philip Morris for 4¾ shares of A.S.R.

What is called **Chicago's biggest rental deal** finds Swift & Co. signing a 20-year lease for eight floors of the LaSalle-Jackson Building for a total of \$20-million.

WASHINGTON OUTLOOK

WASHINGTON
BUREAU
JAN. 2, 1960

A BUSINESS WEEK SERVICE

Eisenhower's programs and policies for his final year as President will unfold over the next three weeks.

You can anticipate the highlights—the direction—while waiting for the details to be spelled out in the annual Big Three messages to Congress.

On the foreign front, emphasis will be on the peace effort—a sort of all-out attempt for an East-West understanding, backed by increased economic aid to underdeveloped areas.

Here at home, you will see a shift of emphasis. The big play will be on the need for economic growth. The inflation danger will be played up, too, but it won't overshadow growth, as it has been doing.

The State of the Union message, Jan. 7, will express the broad outline of what Eisenhower hopes for in the eighth and last year of his Administration. In this, he will drive some new guidestakes on how far he thinks the West should go in settling issues with the East. He will spell out in more detail his ideas about world disarmament. The message will be a policy statement in advance of the coming summit meetings and his visit to Russia. Details of domestic policy will come in later messages.

The budget message the following week will deal with such major policies as defense, public works spending, tax hopes, and other domestic issues.

A balance for the 1961 fiscal year, which starts July 1, will be forecast. Here's the advance word on key budget figures:

Spending will be scheduled at about $81-billion, up from this year's estimated $79-billion. It will reflect a slow rate of rise.

Receipts will be figured at something over $82-billion—a figure that may well turn out to be conservative. Eisenhower doesn't want to invite a drive in Congress to cut taxes.

Surplus will be forecast at $1-billion plus. This contrasts with the deficit of $12.5-billion for the year ended last June 30 and is up a bit from the surplus of $1-billion figured for this coming June 30.

The economic report, according to the present schedule, will be the sweep-up for the general program.

The keynote will be future economic growth. But the responsibility for the growth will be left largely with private enterprise, with the government contribution limited chiefly to maintaining a favorable business climate.

Hard money will be defended as necessary to avoid rapid inflation (page 61). But there will be reservations keyed to the idea that credit restraint should not be pushed to the point where necessary expansion is blocked.

Democrats will come up with a program to the left. It won't go so far as their January, 1959, program, which was keyed to recovery from recession. But it will try to picture Eisenhower, and especially Vice-Pres. Nixon, as anti-farmer, anti-welfare, and pro-big business. In this, you will see the Democrats hunting for a Presidential issue—a hard thing to find when there's peace, even if uneasy, and good times with jobs plentiful.

WASHINGTON BUREAU
JAN. 2, 1960

This session of Congress will be fairly short. The Democrats will try to close the session by July.

You will get a noisy session, with most actions taken against the political backdrop. But legislation will be very limited.

Eisenhower's budget will be O.K.'d in most respects, after a rather determined show in both parties to force economies.

Taxes won't be much of an issue. The current corporate rate and the Korean excises will be extended another year. Extra highway use taxes to finance the interstate road system are doubtful.

Defense policies won't be changed materially. Inter-service fighting will be intense. But the defense organization is so vast that Congress can't understand what is going on, so will be slow to order changes.

Foreign aid will be hot. After his Near East tour, the President is convinced that economic assistance is an essential part of the fight to contain Communism. But Democrats see this part of the program backed by the Administration as something to be cut. They know it's out of character for them, since they started the business. But they will try to make political hay, claiming that cuts of aid abroad can bring tax cuts at home.

The labor issue is boiling. Neither party wants legislation to end the steel dispute. Each is afraid of the consequences. But both sides seem reconciled to the fact that if the strike is resumed, Congress must act to avoid a real economic crisis.

Both sides talk of a forced steel settlement—forced by arbitration or some other way. The thing to watch for in any legislation on this issue is any move to freeze steel prices in a compulsory wage agreement.

Other labor legislation will be limited to an effort to boost the minimum wage from $1 per hour to about $1.25.

Government interest rates will be an issue.

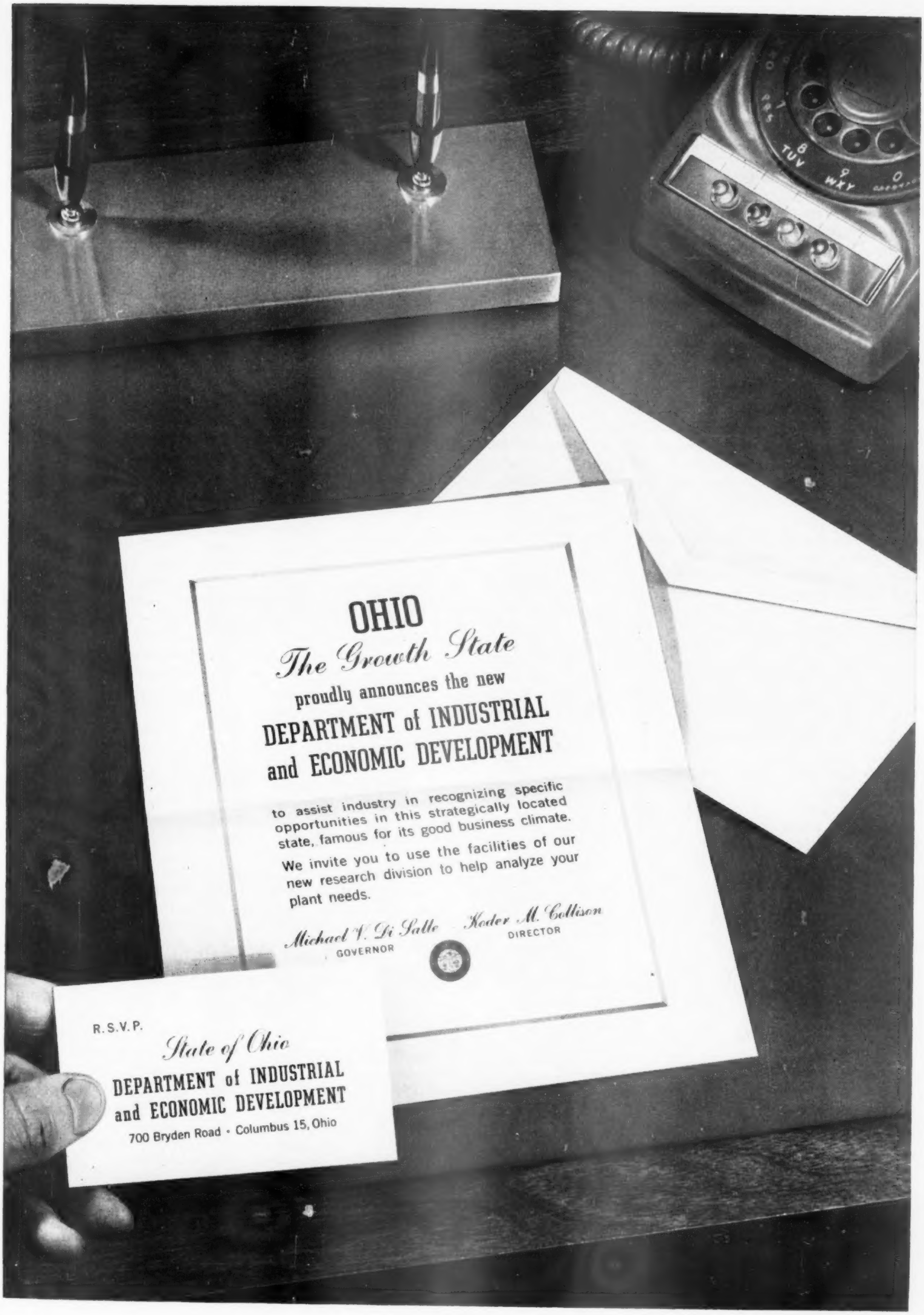
Eisenhower still wants the ceiling raised on government bonds. Even with a balanced budget for fiscal 1961, the Treasury may well run into difficulty. Its problem is in refinancing the billions of maturing obligations.

The Democrats again will say "no." With peace in the world and prosperity here at home, the out-party is short of issues. Congress leaders would like nothing better than to see the Eisenhower Administration run into major financing trouble before the general election.

—•—

Politics: Discount Democratic cheers about Rockefeller's withdrawal (page 22). Statements from Senate Leader Johnson, Sen. Sparkman, and others that this benefits their party—that it leaves the way clear for an all-out attack on Nixon—should be accepted with suspicion. Nixon has been a main target for the past seven years, and they haven't cut him down. Their hope had been that Rockefeller would force a bitter fight for delegates, split the Republicans, and make the nomination worth little to the winner.

The outlook at this distance still is for a Nixon victory in November. The Democrats will keep the Senate. The House will be close, with the odds favoring the Democrats. Net, the prospect is another term of divided government—Republicans in the White House, the Democrats running Congress.


OHIO
The Growth State
proudly announces the new
DEPARTMENT of INDUSTRIAL
and ECONOMIC DEVELOPMENT
to assist industry in recognizing specific opportunities in this strategically located state, famous for its good business climate.
We invite you to use the facilities of our new research division to help analyze your plant needs.
Michael V. Di Salle
GOVERNOR
Koder M. Collison
DIRECTOR
R.S.V.P.
State of Ohio
DEPARTMENT of INDUSTRIAL
and ECONOMIC DEVELOPMENT
700 Bryden Road · Columbus 15, Ohio

World's Airlines Feud on Fares

The chase for the international air passenger is always a frantic one for the world's airlines. Wooing him, they slug it out over a sandwich, the pitch of a reclining seat, an extra sightseeing stopover, even the bouquet of a wine. The result is sometimes a fantastic lavishing of attention on the traveler.

Almost always, though, the slugging is staged in the plainly roped-off area of services. Only a few maverick airlines tamper with established fare structures and make price a competitive weapon.

The reason for this is clear. One thing the world's international airlines fear is a rate war. Few carriers are profitable as it is; almost all are on subsidy (the U. S. lines are exceptions). A rate war—fought with an abundance of passenger services and fare slashes—would mean lower profits or none at all, and subsidies would be more necessary than ever. If the fight got really nasty, schedules might even be curtailed: Since many carriers are actually agencies of their governments, they could force rivals out of home territory.

• **Toward War**—The result of any such feuding could be a devastated industry. Yet today the international airlines are drifting toward rate war.

The drift began in September when the annual ratemaking conference of the International Air Transport Assn., which represents virtually all the lines, broke up in a deadlock at Honolulu.

There have been such deadlocks before. But in other years, new meetings were scheduled almost immediately after a few closed-door sessions. This time, no move for a new conference has been made. If nothing has been done by Mar. 31, when the current set of fare agreements expires, rates all around the world will automatically be wide open.

Few in the industry think open rates will become a reality. The belief is that IATA will first call its traffic conference into emergency session or attempt to reach agreements through its executive committee after private talks with the dissenting airlines.

• **Greater Discord**—What most concerns observers is that the international carriers find themselves less and less able to agree. They have the power to set their own fares, subject only to a seldom-used veto by governments, but each year they struggle harder to satisfy all 90 or so members of IATA.

I. IATA's Inner Workings

IATA is unique, intricate, controversial—and the basic reason why international airlines have avoided a rate war.

On one hand, it is an industry association that does the things most such bodies do. It distributes information, provides forums and sets standards of safety and service.

But IATA's powers go far beyond this. As a result of bilateral agreements among governments, IATA can regulate practically every phase of international air travel except licensing and route awards. Through an enforcement committee, it can back a regulation with a fine as high as $25,000.

• **Committees**—IATA's chief legislators are its 90 airline members, who convene once a year at the general meeting and also at such sessions as its traffic and technical conferences. Its administration is an elected executive committee, headed by a director general. Half a dozen other important committees enjoy Cabinet-like status. The financial committee, for example, set up the IATA Clearing House in London, through which the airlines clear interline revenues.

Another group, the legal committee, lays the groundwork for standardizing tickets, waybills, and baggage checks. A technical committee and an annual technical conference disseminate operating information and developments.

• **Pegging Rates**—IATA's most controversial arm is its rate-setting traffic conference. Technically, there are three conferences covering three world traffic areas, but all three meet at the same time and place each fall. At any given time the traffic conference has in force 700 or 800 resolutions in three general areas: standardized documents, e. g. tickets; uniform accounting; and international fares and rates, of which there are more than 30,000.

Although IATA likes to compare its traffic conference with ratemaking groups in other industries such as shipping, there are important differences. A shipowner can operate whether he abides by agreed rates or not. But international airlines can be fined by IATA for violations. Worse, an offending air carrier may find countries limiting the frequency of its flights within their boundaries. Governments control route awards and flight frequency, and in many nations the home airline amounts to an arm of the government.

• **Veto Power**—To pass legislation within IATA, a vote must be unanimous. So a single airline, regardless of its size, can block a resolution. However, the weight of the veto sometimes depends on who exercises it.

For instance, the deadlock at this year's Honolulu traffic conference was brought on by the hard stands taken by British Overseas Airways Corp., one of Britain's national flag carriers. But the issues themselves were less important than BOAC's refusal to bargain. A few members of IATA complain that only a carrier as large as BOAC could deadlock the conference.

• **Bickering**—Some of the dissension of the traffic conference has spilled over into other activities of IATA. After the general meeting three months ago in Tokyo, smaller airlines charged that IATA is dominated by such big carriers as BOAC, Pan Am, and Trans World Airlines.

Some of the carriers also moan that at IATA's general meeting the real work is done in hotel rooms—and that they are left out of the rooms.

• **Comparative Costs**—But criticism of IATA is by no means confined to the members. Many a U. S. traveler resents North Atlantic fares. Commonly compared is the cost of a transcontinental with a transatlantic flight. The round-trip economy fare between New York and London is $462.50; round-trip jet coach between New York and Los Angeles is $254.10, including tax.

Some resentment has built up, too, over the way IATA controls U.S. international lines. Although they are actually U. S. common carriers, their rates are regulated not by a U. S. agency, such as the Civil Aeronautics Board, but by IATA—which one Congressman has labeled a cartel. Selig Altschul, an independent adviser of airlines, points out that CAB has only the power to disapprove an international rate; on domestic lines, it stringently controls rates.

II. Supply Outruns Demand

But the troubles of the international airlines run deeper than the dissension around IATA. In fact, it may be that the discord is only a symptom of some hard facts of airline life. Chief among these is the way capacity has consistently outrun demand.

Since 1955, the number of seat-miles available for sale has increased 48%. But sales of these seat-miles have advanced only slightly more than 39%.

Overcapacity could increase even more with the addition of jets. A single Boeing 707, for example, can replace three Douglas DC-7's because the jet has 30 or 40 more seats and higher speed, which enables it to make more trips with more passengers in the same time. This year, only Pan Am and BOAC are operating pure jets on the North Atlantic run, but by next summer 13 of the 17 carriers on the route will be jet-equipped.

• **More Carriers**—The jetliner is only

Thanks to competition, the international air traveler almost drowns in services.

one reason for expanding capacity. Since 1955, the number of carriers in IATA has risen from 73 to 90. In the five years before 1955, only six new airlines joined up.

Usually, an airline gains entry to world markets through reciprocity agreements among governments—under which country A's carrier gets access to country B and gives similar privileges to the airline of country B in return. For the world's biggest airlines, these agreements are a headache. The U. S. market has been traded again and again, since each country served by Pan Am or TWA has the right to send its own planes to the U. S. But it's likely that the foreign line gains much more from serving the U. S. than Pan Am or TWA does from landing in the foreign country. Only a few nations offer markets of any volume.

Some airlines, in the U. S. and elsewhere, complain that governments occasionally make route awards not according to need or public interest, but for political motives.

• **Pool Plan**—Since governments control these awards, though, the only alternative is to scramble harder.

Some of the scrambling has meant cutting costs by forming pools. Earlier this year, Belgium's Sabena, France's Air France, Italy's Alitalia, and Germany's Lufthansa formed Air Union to pool equipment, flight schedules, and maintenance. Similar though smaller arrangements are common.

• **Merchandising**—It is in the marketplace itself, though, that the scrap is particularly lively. The airlines are saturating routes with flights, offering passengers more and more for their money, and pushing cut-rate charter service (BW—Aug.15'59,p26), which fills otherwise idle planes. This year TWA is assigning 35 Constellations displaced by jets to the booming charter market.

One of the airlines' favorite merchandising weapons is the extra city stop. SAS, for example, offers its passengers a chance to ski in the Swiss Alps, swim on the Riviera, and explore the North African desert before completing a flight for the regular fare between New York and Rome.

• **Five Freedoms**—The extra-city concept is particularly irritating to a number of airlines, though most of them practice it. The reason for their irritation stems from the way most of them use the extra city to parlay route awards, which are granted according to the so-called "five freedoms." With the first of these, an airline can fly over another country. The second gives it authority to land and refuel there; the third, to fly from its own country to country X; the fourth, to fly from country Z to its own territory.

The fifth and last of the freedoms is the most important: It allows an airline to fly between two points outside its own country. This gives a carrier with a small market at home, such as Holland's KLM or Belgium's Sabena, a chance to tap some larger markets abroad.

However, some airlines grumble that other airlines combine the third and fourth freedoms into an extra one: a non-existent sixth. The combination gives an airline the chance to divert traffic from a carrier with a direct route. One example is SAS, which has third freedom authority to fly from Copenhagen to New York; and fourth freedom authority to fly from Rome to Copenhagen. SAS does not have authority to fly directly between New York and Rome, but nevertheless offers flights via Copenhagen.

To control the sixth freedom, U. S. and British carriers are supporting a traffic study by the United Nations' International Civil Aviation Organization to show the origin and destination of passengers. Such a study, they believe, would reveal violations of the freedoms and also disclose which carriers rely solely on markets outside their own territories.

III. Future in Doubt

Few airline executives care to predict the future of international traffic. One reason is that most of them think governments will keep on awarding new routes and creating new carriers—and thus capacity. But as competition stiffens, more and more extra services will appear. Sandwiches served on North Atlantic economy flights are already more elaborate, and drinks are now being sold on these thrift runs. Flights will be expanded.

A few observers think pool agreements will increase and perhaps eventually become real mergers, despite the hesitancy of nations to sacrifice their identities. SAS is already the flag line of three countries: Denmark, Sweden, and Norway. Pan Am holds as much as 50% interest in 10 other airlines. Recently, the Arab League came up with a plan to create a Pan-Arab airline. Five South American carriers are expected to announce a merger that would form a single air system in Colombia, Chile, Ecuador, and Peru.

• **More Fireworks**—But the world's markets, says airline consultant Selig Altschul, can't support all the airlines as they now stand—not without larger and larger subsidies for most of them. Their rivalry is bound to spill over into IATA increasingly, especially in the sensitive area of fares. Some carriers such as Pan Am will be pressing for lower fares to build traffic. Smaller lines, many of them with subsidy-granting governments peering over their shoulders, will tend to resist—especially since the services offered to attract passengers cost money. The result can only be more and more discord at IATA sessions.

But the problems of international airlines are too much for IATA as long as airlines keep proliferating. The real problems are the nationalist aspirations of countries. They're beyond IATA's ability to control. **END**

World's Airlines Feud on Fares

The chase for the international air passenger is always a frantic one for the world's airlines. Wooing him, they slug it out over a sandwich, the pitch of a reclining seat, an extra sightseeing stopover, even the bouquet of a wine. The result is sometimes a fantastic lavishing of attention on the traveler.

Almost always, though, the slugging is staged in the plainly roped-off area of services. Only a few maverick airlines tamper with established fare structures and make price a competitive weapon.

The reason for this is clear. One thing the world's international airlines fear is a rate war. Few carriers are profitable as it is; almost all are on subsidy (the U. S. lines are exceptions). A rate war—fought with an abundance of passenger services and fare slashes—would mean lower profits or none at all, and subsidies would be more necessary than ever. If the fight got really nasty, schedules might even be curtailed: Since many carriers are actually agencies of their governments, they could force rivals out of home territory.

• **Toward War**—The result of any such feuding could be a devastated industry. Yet today the international airlines are drifting toward rate war.

The drift began in September when the annual ratemaking conference of the International Air Transport Assn., which represents virtually all the lines, broke up in a deadlock at Honolulu.

There have been such deadlocks before. But in other years, new meetings were scheduled almost immediately after a few closed-door sessions. This time, no move for a new conference has been made. If nothing has been done by Mar. 31, when the current set of fare agreements expires, rates all around the world will automatically be wide open.

Few in the industry think open rates will become a reality. The belief is that IATA will first call its traffic conference into emergency session or attempt to reach agreements through its executive committee after private talks with the dissenting airlines.

• **Greater Discord**—What most concerns observers is that the international carriers find themselves less and less able to agree. They have the power to set their own fares, subject only to a seldom-used veto by governments, but each year they struggle harder to satisfy all 90 or so members of IATA.

I. IATA's Inner Workings

IATA is unique, intricate, controversial—and the basic reason why international airlines have avoided a rate war.

On one hand, it is an industry association that does the things most such bodies do. It distributes information, provides forums and sets standards of safety and service.

But IATA's powers go far beyond this. As a result of bilateral agreements among governments, IATA can regulate practically every phase of international air travel except licensing and route awards. Through an enforcement committee, it can back a regulation with a fine as high as $25,000.

• **Committees**—IATA's chief legislators are its 90 airline members, who convene once a year at the general meeting and also at such sessions as its traffic and technical conferences. Its administration is an elected executive committee, headed by a director general. Half a dozen other important committees enjoy Cabinet-like status. The financial committee, for example, set up the IATA Clearing House in London, through which the airlines clear interline revenues.

Another group, the legal committee, lays the groundwork for standardizing tickets, waybills, and baggage checks. A technical committee and an annual technical conference disseminate operating information and developments.

• **Pegging Rates**—IATA's most controversial arm is its rate-setting traffic conference. Technically, there are three conferences covering three world traffic areas, but all three meet at the same time and place each fall. At any given time the traffic conference has in force 700 or 800 resolutions in three general areas: standardized documents, e. g. tickets; uniform accounting; and international fares and rates, of which there are more than 30,000.

Although IATA likes to compare its traffic conference with ratemaking groups in other industries such as shipping, there are important differences. A shipowner can operate whether he abides by agreed rates or not. But international airlines can be fined by IATA for violations. Worse, an offending air carrier may find countries limiting the frequency of its flights within their boundaries. Governments control route awards and flight frequency, and in many nations the home airline amounts to an arm of the government.

• **Veto Power**—To pass legislation within IATA, a vote must be unanimous. So a single airline, regardless of its size, can block a resolution. However, the weight of the veto sometimes depends on who exercises it.

For instance, the deadlock at this year's Honolulu traffic conference was brought on by the hard stands taken by British Overseas Airways Corp., one of Britain's national flag carriers. But the issues themselves were less important than BOAC's refusal to bargain. A few members of IATA complain that only a carrier as large as BOAC could deadlock the conference.

• **Bickering**—Some of the dissension of the traffic conference has spilled over into other activities of IATA. After the general meeting three months ago in Tokyo, smaller airlines charged that IATA is dominated by such big carriers as BOAC, Pan Am, and Trans World Airlines.

Some of the carriers also moan that at IATA's general meeting the real work is done in hotel rooms—and that they are left out of the rooms.

• **Comparative Costs**—But criticism of IATA is by no means confined to the members. Many a U. S. traveler resents North Atlantic fares. Commonly compared is the cost of a transcontinental with a transatlantic flight. The round-trip economy fare between New York and London is $462.50; round-trip jet coach between New York and Los Angeles is $254.10, including tax.

Some resentment has built up, too, over the way IATA controls U. S. international lines. Although they are actually U. S. common carriers, their rates are regulated not by a U. S. agency, such as the Civil Aeronautics Board, but by IATA—which one Congressman has labeled a cartel. Selig Altschul, an independent adviser of airlines, points out that CAB has only the power to disapprove an international rate; on domestic lines, it stringently controls rates.

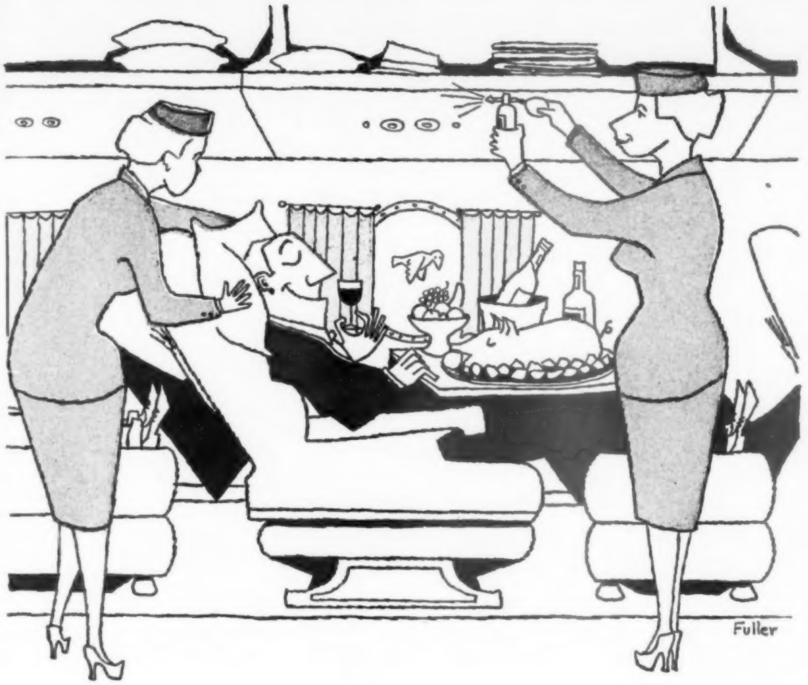
II. Supply Outruns Demand

But the troubles of the international airlines run deeper than the dissension around IATA. In fact, it may be that the discord is only a symptom of some hard facts of airline life. Chief among these is the way capacity has consistently outrun demand.

Since 1955, the number of seat-miles available for sale has increased 48%. But sales of these seat-miles have advanced only slightly more than 39%.

Overcapacity could increase even more with the addition of jets. A single Boeing 707, for example, can replace three Douglas DC-7's because the jet has 30 or 40 more seats and higher speed, which enables it to make more trips with more passengers in the same time. This year, only Pan Am and BOAC are operating pure jets on the North Atlantic run, but by next summer 13 of the 17 carriers on the route will be jet-equipped.

• **More Carriers**—The jetliner is only



Thanks to competition, the international air traveler almost drowns in services.

one reason for expanding capacity. Since 1955, the number of carriers in IATA has risen from 73 to 90. In the five years before 1955, only six new airlines joined up.

Usually, an airline gains entry to world markets through reciprocity agreements among governments—under which country A's carrier gets access to country B and gives similar privileges to the airline of country B in return. For the world's biggest airlines, these agreements are a headache. The U. S. market has been traded again and again, since each country served by Pan Am or TWA has the right to send its own planes to the U. S. But it's likely that the foreign line gains much more from serving the U. S. than Pan Am or TWA does from landing in the foreign country. Only a few nations offer markets of any volume.

Some airlines, in the U. S. and elsewhere, complain that governments occasionally make route awards not according to need or public interest, but for political motives.

• **Pool Plan**—Since governments control these awards, though, the only alternative is to scramble harder.

Some of the scrambling has meant cutting costs by forming pools. Earlier this year, Belgium's Sabena, France's Air France, Italy's Alitalia, and Germany's Lufthansa formed Air Union to pool equipment, flight schedules, and maintenance. Similar though smaller arrangements are common.

• **Merchandising**—It is in the marketplace itself, though, that the scrap is particularly lively. The airlines are saturating routes with flights, offering passengers more and more for their money, and pushing cut-rate charter service (BW—Aug.15'59,p26), which fills otherwise idle planes. This year TWA is assigning 35 Constellations displaced by jets to the booming charter market.

One of the airlines' favorite merchandising weapons is the extra city stop. SAS, for example, offers its passengers a chance to ski in the Swiss Alps, swim on the Riviera, and explore the North African desert before completing a flight for the regular fare between New York and Rome.

• **Five Freedoms**—The extra-city concept is particularly irritating to a number of airlines, though most of them practice it. The reason for their irritation stems from the way most of them use the extra city to parlay route awards, which are granted according to the so-called "five freedoms." With the first of these, an airline can fly over another country. The second gives it authority to land and refuel there; the third, to fly from its own country to country X; the fourth, to fly from country Z to its own territory.

The fifth and last of the freedoms is the most important: It allows an airline to fly between two points outside its own country. This gives a carrier with a small market at home, such as Holland's KLM or Belgium's Sabena, a chance to tap some larger markets abroad.

However, some airlines grumble that other airlines combine the third and fourth freedoms into an extra one: a non-existent sixth. The combination gives an airline the chance to divert traffic from a carrier with a direct route. One example is SAS, which has third freedom authority to fly from Copenhagen to New York; and fourth freedom authority to fly from Rome to Copenhagen. SAS does not have authority to fly directly between New York and Rome, but nevertheless offers flights via Copenhagen.

To control the sixth freedom, U. S. and British carriers are supporting a traffic study by the United Nations' International Civil Aviation Organization to show the origin and destination of passengers. Such a study, they believe, would reveal violations of the freedoms and also disclose which carriers rely solely on markets outside their own territories.

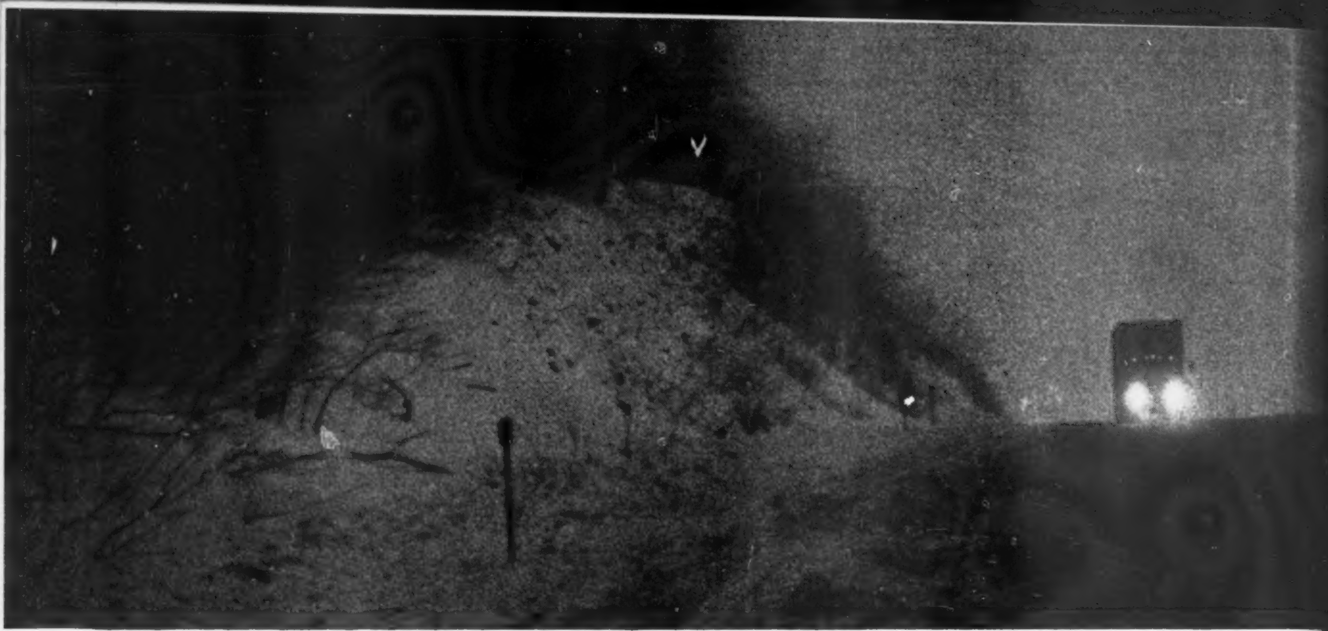
III. Future in Doubt

Few airline executives care to predict the future of international traffic. One reason is that most of them think governments will keep on awarding new routes and creating new carriers—and thus capacity. But as competition stiffens, more and more extra services will appear. Sandwiches served on North Atlantic economy flights are already more elaborate, and drinks are now being sold on these thrift runs. Flights will be expanded.

A few observers think pool agreements will increase and perhaps eventually become real mergers, despite the hesitancy of nations to sacrifice their identities. SAS is already the flag line of three countries: Denmark, Sweden, and Norway. Pan Am holds as much as 50% interest in 10 other airlines. Recently, the Arab League came up with a plan to create a Pan-Arab airline. Five South American carriers are expected to announce a merger that would form a single air system in Colombia, Chile, Ecuador, and Peru.

• **More Fireworks**—But the world's markets, says airline consultant Selig Altschul, can't support all the airlines as they now stand—not without larger and larger subsidies for most of them. Their rivalry is bound to spill over into IATA increasingly, especially in the sensitive area of fares. Some carriers such as Pan Am will be pressing for lower fares to build traffic. Smaller lines, many of them with subsidy-granting governments peering over their shoulders, will tend to resist—especially since the services offered to attract passengers cost money. The result can only be more and more discord at IATA sessions.

But the problems of international airlines are too much for IATA as long as airlines keep proliferating. The real problems are the nationalist aspirations of countries. They're beyond IATA's ability to control. **END**



Merger Trend Picks Up Speed in

High costs, the difficulties of one-man operation, and more competition from the rails are inspiring many consolidations.

In the cavernous main offices of the First National City Bank of New York, there's a loan officer who holds what could well be the future shape of a whole industry encased in a small card-file box. Some 140 companies are listed on the cards; none is of great size by industrial standards. But from among them, in the next 10 or 15 years, could come 20 or 30 giants to rule the bulk of the trucking industry.

The First National City's man has collected the 140-odd company names not simply to play a guessing game of who will come out on top. He is more interested in selecting trucking companies that can be reckoned good risks for bank loans. Some of those he has selected may eventually disappear, through sale or merger, to become parts of other trucking outfits. Who the giants will be a decade hence, he does not know. But there's no dispute that the trucking industry is in for a sweeping consolidation in the next decade. This has already begun, and it will go on increasingly fast.

• **Ryder's Next Wedding**—One of the biggest merger plans in the industry may come soon. Ryder System, Inc., the Florida-based trucking and leasing outfit (BW—Apr.11'59,p88), is talking merger with Pacific Intermountain Express, the fourth largest in the industry. This would give Ryder a transcontinental truck route and extra revenues of almost $48-million, making it the biggest in the industry on the basis of last year's revenues.

If Ryder and PIE work out a merger plan, it's likely it will still be more than a year—and possibly three—before the Interstate Commerce Commission decides whether to permit the merger.

• **Financiers Brighten**—But the promise of action is there, and the merger plans of Ryder—and of scores of others in the trucking business—have prompted the sudden interest of bankers, underwriters, and investors. Until the last couple of years they've looked askance at trucking. Most trucking companies, they felt, were too unstable, too weakly managed, too much subject to the whims of one-man control.

Says one banker: "So far as many of us have been concerned, these fellows have only just come up out of the grease pits. Only a handful qualified for long-term loans. But now the attitude is changing."

The same goes for securities underwriters, who have lately helped half a dozen truck lines sell stock to the public. "We haven't paid much attention to trucking in the past," says one underwriter, "but now some truck lines are becoming valuable customers, and we're out after more of them."

I. Defining the Industry

Not every truck you see on the highways is involved in this reshaping of the industry—not by a long shot. The trucking industry means two different things. To the railroads, it means a menacing monster represented by every truck on the road, except for the few that the railroads themselves operate. But to truckers, it means a business represented by fewer than 10% of the trucks on U.S. highways.

There are 11-million trucks operating in the U.S. today. Nearly two thirds of that number are in the fleets of manufacturers, distributors, and retailers. These businesses operate trucks as an adjunct to their main occupations; they carry their own goods in them. Another 3-million trucks belong to farmers, and they too are outside the industry.

• **Common Carriers**—What's left are about 850,000 trucks operated by some 17,000 companies. These are the for-hire truckers. Though their fleets represent fewer than one in 10 of all the trucks on the road, they produce more than 30% of the work done by all 11-million trucks, and their revenues are better than $6-billion a year.

Most of these for-hire truckers are common carriers, who haul freight on fixed schedules over regular routes. Only a decade ago there were more than 18,000 common carrier truck lines. By the end of last year their number had dropped to about 12,000. In the same time, business for all the common carriers more than doubled. But only some 1,200 of them do more than $1-million worth of business a year.

II. Why Truckers Merge

Shakeouts like this are no rare thing in U.S. industry. Usually, though, there's a technological reason for them: a scientific advance that gives a few companies in an industry an advantage over their competitors. But in trucking, technology plays little part in reshaping

Trucking as Rivalries Get Hot

the industry. The reasons for this shakeout are as simple as death and taxes and as complex as human nature.

Trucking as an industry worthy of the name is just about one working lifetime old. A high proportion, probably more than two-thirds, of the truck lines operating today started as one-man or one-family businesses early in the Depression. The men who started them are in their 60s now, and they still own and run their own companies. Most of the money they have made is tied up in their companies. Their stockholders, if any, are likely to include no more than a few local businessmen who backed them in the past.

• **Preparing for Taxes**—In hundreds of cases their sons don't want to take over the business. And the only way for them to prepare to meet the estate tax collector's demands is to sell out or merge their lines with others. They have been lone operators all their lives, unsophisticated in the ways of management, and for thousands of them there's no attraction in running their businesses unless they have complete control; they would prefer to take their money and spend their remaining years sitting in the Florida sunshine.

Fewer than 20 of the top 55 truck lines (revenues above $13-million each in 1958) are public companies. In the next few years more will go public. And there will still be some that will grow as one-man operations. But time and taxes inevitably mean that thousands more will sell out or merge in the next decade.

• **Going It Alone**—But almost certainly there'll be at least a couple of thousand independent truck lines left by the end of the 1960s. It seems unlikely that the trucking business will go exactly the way the railroads went 60 and 70 years ago, when consolidations wiped out hundreds of small railroads.

Truck lines simply don't have the overwhelming financial needs of the railroads: They run on the public highways, and the most expensive pieces of real estate they need are sites for one terminal in each city they serve. Some truck lines don't even own their equipment. They lease almost everything they use: trucks, trailers, terminals.

Short-haul traffic, the bane of the railroads, can be a lucrative business for truckers, and a one-owner short-haul line can produce a good return on little capital.

Economics aside, the Interstate Commerce Commission must approve any merger of truck lines. For years the ICC has rarely prevented these mergers, though it has usually taken up to a year and more to give its O.K. But lately it seems to be moving more cautiously and taking even longer to give its approval to major mergers.

These are some of the factors that make it chancy to try guessing who will dominate the trucking industry a decade hence. You can't even be sure that all of the dozen largest companies now in the industry will survive that far ahead.

III. Some Up, Some Down

The giant of the industry today is Consolidated Freightways, Inc., of Menlo Park, Calif. It estimates it wound up 1959 with a $115-million gross.

It has bought 20 smaller truck lines—all of them one-man or family-owned companies—in the last three years, and it has applications before the ICC for another 13 acquisitions. It has spread into Canada, Alaska, Hawaii, and it even has operating rights in Japan and the Philippines. One subsidiary charters ships that carry cargo, in containers that can be swung directly from truck trailers to holds, from the West Coast to Hawaii. Other subsidiaries make truck and trailer components and refrigeration equipment. These subsidiaries are a growing part of Consolidated's business, though they still account for only 15% of its gross.

• **Profitable Short Runs**—The heart of Consolidated's operation lies in the web of the truck routes in the western half of the nation. Consolidated's route map shows its own lines and those of truckers it is seeking to acquire stretching from coast to coast. It looks, at a glance, as if Consolidated could compete with transcontinental railroads for long-haul business. But Consolidated's Pres. Jack Snead, Jr., says: "We have no long-haul dreams because that business is just too expensive. From the moment one of our trucks leaves a terminal on a long-haul run, our costs are two and a half times as much as a railroad's. And that's withering competition, except in the cases where the speed and flexibility of truck transportation are desirable enough to warrant a premium rate."

For this reason Consolidated's acquisitions over the last few years have almost all been designed primarily to bring more short-haul business to the company. Through this process, the average length of Consolidated's freight haul has dropped from 750 to around

400 miles. "This," says Snead, "is the service best suited to trucks."

Consolidated long ago ceased being a one-man operation. Today it has a new headquarters building in a San Francisco suburb, a staff of grey-flannel-suited management men, a $39-million line of credit with a syndicate of banks at the prime rate plus one-half of 1%. It is, in fact, a solidly institutionalized company in an industry where there are not many of this kind.

• **Study in Contrast**—So is the No. 2 company in the industry, Associated Transport, Inc., of New York. But in the last few years AT's record has been very different from Consolidated's—another sign that trucking is still a mercurial business.

While Consolidated's net profit has been running around 2½% of gross revenues for the last five years—just a shade under the industry average—AT's has been limping along at less than 1%. Once, in 1955, it slumped as low as three-tenths of 1%.

For the last two years, AT's Pres. Burge M. Seymour has been battling against this record. In 1958 he wasn't able to change the final result because AT had to spend heavily to add equipment maintenance departments to many of its 68 freight terminals. Now, he has beaten the trend. AT's revenues for the first nine months of 1959 are up 26%; its net turned from a near $80,000 loss in the same period of 1958 to more than $850,000 profit.

"We couldn't cut costs by much," says Seymour, "so we just had to go out for more business." AT will probably wind up 1959 with a $70-million gross—up 23% from 1958.

• **Slipping to 99th**—This might look like an erratic performance for the No. 2 company in an industry. But the trucking business can produce even wilder swings than this.

Only six years ago, for example, Riss & Co., a Kansas City truck line, had the third largest traffic volume in the industry. It wound up in 1958 in 99th place; its 1953 revenues of $32-million had dropped to $9-million.

Pres. Richard Riss, Sr., blames unfair competition from railroads for the whole disastrous decline, and he had lodged a $90-million damage suit against 85 of them, charging they conspired to drive him out of business. The railroads, in turn, filed a $110-million suit against Riss, but in mid-November the U.S. District Court in Washington threw out this case. Riss' claim—filed four and a half years ago—will come to trial in Washington next week.

Since 1953, Riss has cut his work force from 2,000 to 600, closed some terminals and leased others to other truck lines. There have been other complications: One of Riss' sons, Robert, Jr., who was president for a short time, quit the company, but has lately rejoined it. William Dannevik, a former FBI agent who was a Riss vice-president, also quit in a policy dispute.

• **Outside Interests**—All stock in Riss & Co. is owned by Riss and his sons. But the truck line is by no means Robert Riss' only interest. He has personal assets believed to be worth more than $1-million: a 600-acre luxury home development in suburban Kansas City; a ranch in Colorado; interests in housing developments in Cleveland and Baltimore and in city real estate in Philadelphia and New York City.

Whatever the merits of Riss' court case, his company's record over the last few years is just the thing to make bankers and underwriters move cautiously as they get more interested in the trucking industry. But the bankers can console themselves with the thought that in the trucking business a company can make only the slimmest of profits and still be a good loan risk. Truckers, on the average, renew their tractors every four years and their trailers every eight or nine years; thus depreciation generates a lot of cash to pay bills even among truck lines that barely manage a net profit each year. And the underwriters get their consolation from the fact that such wild gyrations don't happen among the score or so of publicly owned truck lines.

• **Dynamic Outfits**—The fast movers among these include:

• Ryder System, Inc.'s, common carrier division, which has spread in the last few years from Florida to Virginia and east Texas and now seeks ICC permission to acquire routes into Chicago, Kansas City, and central Texas.

• Spector Freight System, Inc., of Chicago, which has acquired five other truck lines in the last five years and has two more acquisition applications before the ICC. It expects to wind up 1959 with a gross of better than $49-million.

• Roadway Express, Inc., third biggest in the business with 1958 revenues of $51.6-million. It operates out of Akron, from there through the Midwest and the East.

• Denver-Chicago Trucking Co., the only coast-to-coast truck line. It wants to acquire smaller lines along its transcontinental route so that it can get more short-haul business.

• McLean Trucking Co., of Winston-Salem, N. C., runs up and down the Eastern seaboard and west to Illinois, and carries big tonnages of textiles and tobacco, food and machinery.

These lines are among the fastest growers in the industry's top 15. Further down the list there are more truck lines that are growing equally fast. Each has made mergers and acquisitions in the last half dozen years, and competition is pushing them on to more,

for competition in the whole transportation business is getting stiffer every month.

IV. New Competitive Climate

Year after year the truckers have paid more and more for labor, equipment, fuel, and licenses. They're used to this pressure. But now something new has been added.

In part, it's the Transportation Act of 1958. It's also, in part, the slow but steadily moving technical development of piggybacking.

The new transportation act was written when it seemed that some of the nation's major railroads were on the edge of financial disaster. Congress wrote the act with this in mind, and gave the railroads more freedom than they have had in years. The ICC—which must approve new rail or truck freight rates—took note.

• **Whittling Rates**—One of the key clauses of the new act says that one carrier's rates "will not be held up to a particular level to protect the traffic of any other mode of transportation." Within six months, railroads all over the country started cutting their freight rates. They have not been making a general slash, but cutting selectively on one commodity here, another there. By now there have been enough of these selective cuts to produce what E. V. Hill, president of the Eastern Railroads Traffic Executives' Assn., calls a general leveling off of railroad freight rates. For most of the last 15 years railroad rates have been going up.

Setting an official seal on the change, ICC Commissioner Charles A. Webb has told truckers: "If any of you are overcome by nostalgia for the good old days of soft competition, you're in for a rude awakening. The new act means there's going to be hard—but fair—competition."

• **Off on a Spree**—One of the first moves the new act prompted was the "Paint Case." One Eastern railroad cut rates on paint to 20% below those charged by truckers. A couple of years ago the ICC might have disallowed this, but this time ICC passed the rate.

After that the rails' rate-cutting spree began. From hundreds of manufacturers the rails are winning freight that would otherwise have gone by truck. It's not yet possible to tell how much this has been worth to the rails. But the trend is established and seems certain to continue.

• **Trucking by Rail**—Piggybacking adds to the competitive push on the truckers. The system of hauling loaded truck trailers on railroad flatcars is about five years old and growing fast. It has at least four variations. Some railroads haul truckers' trailers; others, like the New York Central, haul only their own trailers. A few haul freight generated by freight forwarders and shippers' cooperatives, sometimes in railroad-owned trailers, sometimes in trailers and on flatcars owned by forwarders.

The first scheme is the one that produces most piggyback traffic. Naturally, it's the only one truckers approve of. But it's still impossible to tell who gets the most benefit out of it. Railroad carloadings gained only 2.4% up to mid-December last year while the number of flatcars loaded with trailers gained 50%. This might mean that through this integration of rail and truck transportation, the rails are grabbing a decisive share of the freight rates formerly paid only to truckers. Some railroad executives say this is so, and they point to the overall growth of rail freight as proof. It might also mean that railroads are simply carrying in trailers much freight that formerly rode in boxcars. Truckers can point to the over-all growth of intercity truck freight to prove this. The figures just aren't good enough to settle the issue either way.

But competition is there and it is pushing the trucking industry toward more consolidation, which many of the companies see as their only way to survival. These moves need more money than the average truck line has to spare, so more and more of them must overhaul their management if they're to qualify for long-term bank loans and especially to issue stock.

• **On Their Side**—If the truckers are not complacent about the increasing competition they face, they're still not deeply scared by it. Many of them guess they can swing great weight in Congress if the going gets rough for the whole industry. As a group they have much political power—in the House of Representatives, anyway. In every Congressional district there are probably three or four trucking companies, and a few hundred voters whose jobs are dependent on them.

Public policy still works for them: They are getting benefits in time and cost savings through use of those stretches of the 41,000-mile interstate highway system already built, and they will get more as the highway construction continues. Industry, American Trucking Assns. economists forecast, will tend to spread along the new highways as it once did along railroads.

The taxes trucks will pay to use these new highways have yet to be worked out. Not until late this year will the Public Roads Bureau give Congress its truck tax recommendations.

By then the railroads, with their rate cuts, hope to have changed truckers' optimism about the future. By then, too, the truckers will be benefiting from mergers and acquisitions, stock sales, and long-term loans. END

In Finance

• • •

Where Savings Are Slumping

	1958	1959
(Net increase in billions of dollars)		
Savings & Loan Assns.	**$6.1**	**$6.7**
Mutual Savings Banks	**2.3**	**1.2**
Commercial Banks	**6.3**	**3.2**
Reserves of Life Insurance Cos. ..	**4.4**	**4.6**
Total	**$18.9-billion**	**$15.9-billion**

Data: Home Loan Bank Board, BW Estimates

New savings by individuals, which hit a record $18.9-billion peak in 1958, dropped to $15.9-billion in 1959, as consumers sharply stepped up spending for durable goods. Of all savings institutions, only savings and loan associations—in general paying the highest rates for savings—were able to better their 1958 performance to any great extent.

Hardest hit by the slump in individual savings were mutual savings banks, which saw their 1958 growth rate sliced in half. It was their worst year, in fact, since 1951. A big factor in the slowdown in the savings flow to the mutuals, of course, was the Treasury's issue of "magic" 5% notes that caused many individuals to switch funds out of the savings banks, which pay on average a little more than 3% for their funds.

Commercial banks also lost funds to the magic fives, but not on the same scale as the mutuals. They lost position in the race for the available savings dollar chiefly because of the low over-all rate they pay for savings. In 1958, the latest period for which data are available they only paid 2.3%, compared to about 3.5% for S&Ls. **This rate differential, some economists say, is becoming increasingly important to savers, and helps explain the rash of rate increases by commercial banks during the year.**

• • •

Study Shows Mergers Related to Health Of the Economy: More During Prosperity

Strong support for the theory that a fresh spurt in merger activity may be under way is found in a new study, Merger Movements in American Industry, 1895-1956, by Ralph L. Nelson of the National Bureau of Economic Research.

Taking a hard look at the part mergers play in industrial life, Nelson concludes that merger activity characteristically follows business activity, **rising in times of prosperity and falling in times of recession.** Thus, he lends backing to those who feel that the recent increase in corporate mergers is a forerunner of more to come as the business upswing continues.

However, Nelson also notes **significant differences in the U.S.'s three great merger waves.** For example, he states that the great merger wave of 1898-1902 came about essentially through the development of a powerful capital market. The second wave in 1926-1930, he says, reflected the increasing role of food processing, chemicals, and petroleum in industrial activity. Nelson adds that in volume and size relative to the business population, the postwar merger wave is "smaller than its predecessors and has not had comparable effects upon the share of markets held by large firms."

• • •

Two Big Groups Likely to Emerge From Shuffle in British Aircraft

The shake-up in Britain's hard-pressed aircraft industry (BW—Dec.12'59,p16) is taking clearer form. Two top aircraft companies—the Hawker Siddeley group and the De Havilland group—now are engaged in merger talks, which would create Britain's biggest aircraft combine, rivaling in size some American aircraft giants. In terms of the market prices for the shares to be exchanged, the merger involves approximately $42-million.

The merger announcement follows Hawker Siddeley's offer for Blackburn and General Aircraft, and its take-over of Folland Aircraft. **From this, it seems clear that Hawker Siddeley will be one of the two major airframe groups** that Aviation Minister Duncan Sandys feels should remain in business.

British aircraft companies have been hard hit by foreign competition, military cutbacks, and their failure to hold an early lead in developing commercial jets; Sandys feels the industry would be more competitive if all the companies amalgamated into two—however distasteful that may be to the industry. **If Sandys has his way, it's likely the second group would form under the Vickers' wing.**

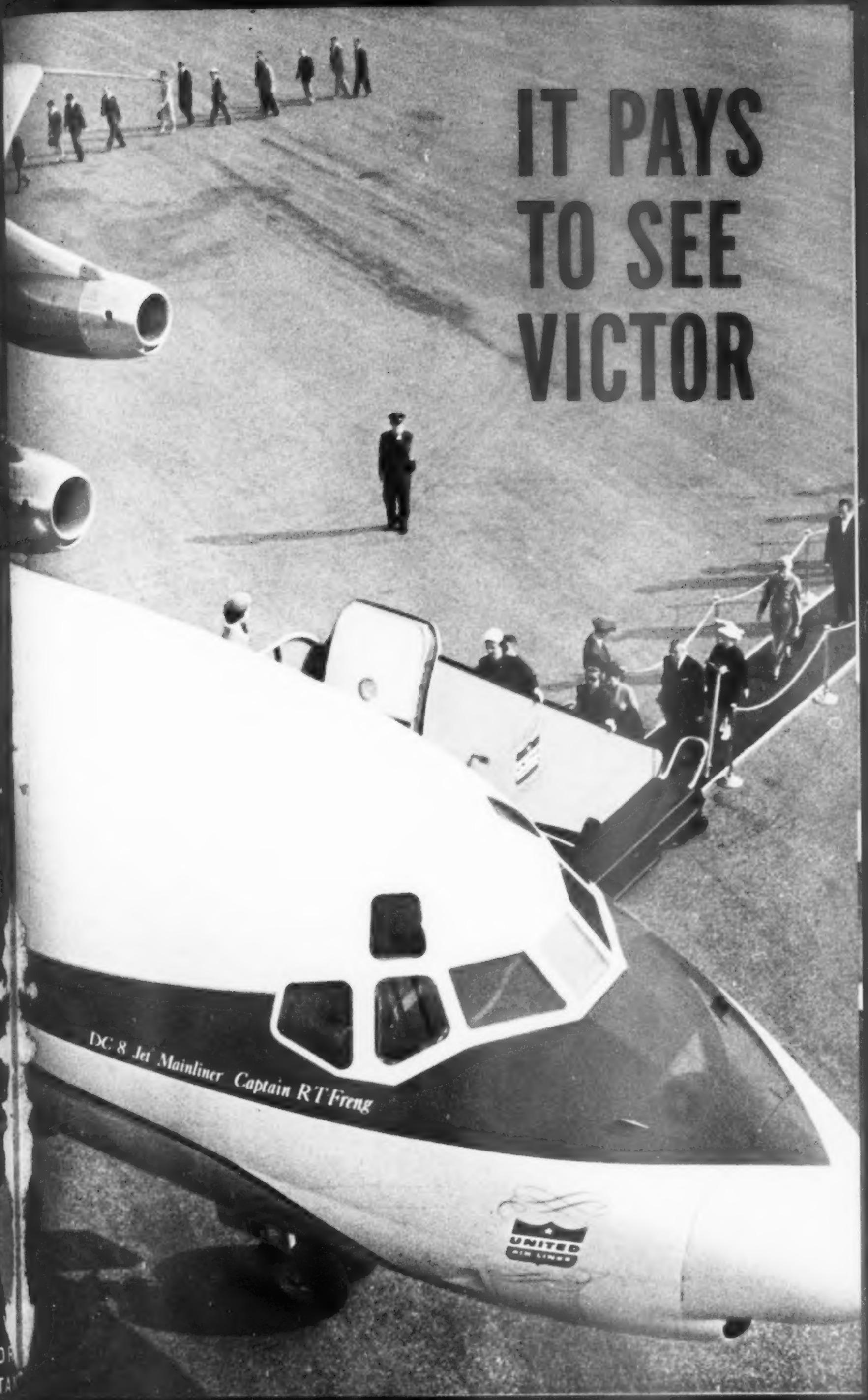
• • •

Finance Briefs

Thomas M. Evans, chairman of **Crane Co.**, maker of plumbing fixtures, continues to expand its size. Crane this week voted to acquire the operating assets of **National-U. S. Radiator Corp.**, Johnstown, Pa., for some $15-million in cash, and the **Swarthout Co.**, Cleveland, maker of electronic controls for the petroleum and chemical industries (1958 sales: $3.5-million). This brings to five the companies Crane has purchased under Evans' hand; Crane also has bought 10% of the stock of **Briggs Mfg. Co.** with the intent of gaining control of the plumbing equipment concern.

Aldens, Inc., big Chicago mail-order house, last week arranged a $23-million private placement with a group of insurance companies. **The company plans to use the funds to finance credit sales,** which have been expanding faster than its cash business. Previously, Aldens had been pledging its receivables with a group of commercial banks to obtain financing, but with banks almost loaned up (BW—Dec.19'59,p52), Aldens has had to go after long-term money, which, compared to bank credit, is relatively plentiful.

MONO 2-ETHYLHEXYL ACID ORTHOPHOSPHATE
TETRASODIUM PYROPHOSPHATE, ANHYDROUS
DICALCIUM PHOSPHATE, STOCK FOOD GRADE
SURFACE ACTIVE PHOSPHORUS COMPOUNDS
SODIUM TRIPOLYPHOSPHATE, ANHYDROUS
DIALKYL CHLOROMETHYLPHOSPHONATES
TRISODIUM PHOSPHATE, MONOHYDRATE
BENZENE PHOSPHORUS OXYDICHLORIDE
DIALKYL CHLOROMETHYLPHOSPHONATE
MONOCALCIUM PHOSPHATE, HYDRATED
CHLORINATED TRISODIUM PHOSPHATE
ALKYL & ARYL PHOSPHONATE ESTERS
DISODIUM PHOSPHATE, DUOHYDRATE
TRISODIUM PHOSPHATE, ANHYDROUS
DISODIUM PHOSPHATE, ANHYDROUS
TETRAPOTASSIUM PYROPHOSPHATE
CHLOROMETHYLPHOSPHONIC ACID
TRICALCIUM PHOSPHATE, VICTOR
POTASSIUM TRIPOLYPHOSPHATE
SODIUM IRON PYROPHOSPHATE
CARBAMIDE PHOSPHORIC ACID
MONOAMMONIUM PHOSPHATE
MONOPOTASSIUM PHOSPHATE
POTASSIUM METAPHOSPHATE
MANGANOFERRO PHOSPHATE
PHOSPHORUS PENTASULFIDE
TRIMAGNESIUM PHOSPHATE
TRIPOTASSIUM PHOSPHATE
FERRIC ORTHOPHOSPHATE
HEMISODIUM PHOSPHATE
FERRIC PYROPHOSPHATE
HI CALCIUM PHOSPHATE
IT PAYS TO SEE VICTOR
POLYPHOSPHORIC ACID
MONOZINC PHOSPHATE
DIPHENYL PHOSPHITE
METHYL PARATHION
FERROPHOSPHORUS
SODIUM FORMATE
SODIUM OXALATE
VICTAWET® 35B
VICTAWET® 12
VICTAMINE C
CHLOROMETHYLPHOSPHON
MONO ISOOCTYL ACID
MONOCALCIUM PHOSPHATE
MONOSODIUM PHOSPHATE
POTASSIUM
MONOLAURYL ACID
MONOETHYL ACID
MONOBUTYL ACID
DICALCIUM PHOSPHATE
DICALCIUM PHOSPHATE
BENZENE PHOSPHORUS DICHLORIDE
DI ISOAMYL ACID PYROPHOSPHATE
CHLOROMETHYLPHOSPHONIC ACID
DIMETHYL ACID PYROPHOSPHATE
SODIUM TETRAMETAPHOSPHATE
PLANT STARTER SOLUTION MIX
MONOMAGNESIUM PHOSPHATE
MONOALUMINUM PHOSPHATE
SODIUM HYPOPHOSPHITE, NF
ALUMINUM METAPHOSPHATE
PHOSPHORUS OXYCHLORIDE
CALCIUM PHOSPHATE, SF-52
CALCIUM PYROPHOSPHATE
PHOSPHATES CASTOR OILS
DIAMMONIUM PHOSPHATE
PHOSPHORIC ANHYDRIDE
IT PAYS TO SEE VICTOR
BOROPHOSPHORIC ACID
POLYPHOSPHORIC ACID
SODIUM HYPOSULFITE
ALUMINUM FORMATE
SODIUM CARBONATE
ANTISTATIC AGENTS
ALKYL PHOSPHITES
CALCIUM OXALATE
FLEXIBLE FYREX®
STABILIZER 6162X
QUESTEX® 2SW
QUESTEX® 4SW
STABILIZER 53
VITRAFOS®
FINE-TEX®
PROTAN®
FYREX®
VFP-56
AJAX
BAKE-AID
VFP-56


IT PAYS
TO SEE
VICTOR
DC 8 Jet Mainliner Captain RT Freng
UNITED
AIR LINES

Phosphoric cuts time...

As you'd expect, *flight time* is cut on United's all new DC-8 Jet Mainliner. Powerful jet engines have a lighter dead-weight load when cabin interiors contain lightweight aluminum —bright dipped in a solution containing Victor *phosphoric acid*. According to United, their designers specified the color and the "bright dip" finish; and Douglas engineers chose aluminum for its strength and light weight.

You can slash *production finishing time*, too. It takes just seconds in a bright dip bath to make aluminum and other metals sparkle. And because chemically polished surfaces are so easily cleaned, *maintenance time* tumbles.

How does Victor phosphoric acid fit into *your* picture? Our technical service department can show you quickly. Should you like to get in a little groundwork before talking to us, just complete the coupon on the back page. You'll quickly agree with other pilots in the industry —*It pays to see Victor*.

V-90 takes the cake...

Any calorie counter should skip this page! But, if *your* customers go shopping for a product to make a variety of desserts, how's this? Each prize winning recipe shown can be prepared with a single basic product—self-rising flour (containing V-90, of course). The recipes? Why, they're from the best in the business—professional home economists. And if you would like a free booklet containing 42 prize-winning, self-rising flour recipes, fill in the coupon on the back page.

It may surprise you to learn that Victor produced the first anhydrous monocalcium phosphate. Of course, our customers in the food industry have known this for a long time. They know, too, that manufacturing chemical leavening agents has been an important factor with us since we started in business. Whether it's for the delicately balanced doughnut mixes, prepared mixes, or the tailor-made leavening for refrigerated doughs, our specialists have had a hand in the development of formulations for each of these new products.

If you've been thinking about the possibility of marketing a new product that requires leavening, be sure you *see Victor—it pays!*

Pentasulfide keeps 'em roving...

People now travel all over the world faster and safer than ever before. One reason is due to the lessening amount of maintenance required for all engines. Part of the answer? Better motor oils. These improved lubricants contain important oil additives, many of which are produced using Victor phosphorus pentasulfide.

Victor's golden yellow, distilled grade was the *first* highly reactive phosphorus pentasulfide on the market. According to the experts, our customers, "Victor P_2S_5 is the best quality available in the chemical market today."

Developing phosphorus derivatives that help solve a variety of problems is simply a part of our business philosophy. So, anytime you're wondering if a phosphorus chemical, formate, oxalate, or any other Victor product can help *you*, write, or use the coupon on the back page. Our technical service people stand ready to offer every assistance, and show you swiftly why more than 40 industries say, "*It pays to see Victor.*"


EXTRA
HIGH
OCTANE

VICTOR CHEMICAL WORKS
Division of Stauffer Chemical Company
Box 572, Chicago 90

☐ Please send samples of the following Victor chemicals:

________________ ________________

________________ ________________

☐ Our company is in the______________industry. Please send your latest Victafile.

☐ Please send me a copy of the booklet "42 Prize Winning Recipes."

☐ Please send me a copy of your new booklet "If you bright dip aluminum."

NAME____________________ TITLE__________

COMPANY____________________________

ADDRESS____________________________

CITY________________ ZONE____ STATE________

In Marketing

• • •

Retailer Challenges Constitutionality In North Carolina "Fair Trade" Law

North Carolina's "fair trade" ruckus has broken out again (BW–Nov.21'59,p133). John T. Davis, operator of D. & J. Market at Winston-Salem, challenged the constitutionality of the "fair trade" law when **Union Carbide Corp. won a temporary injunction to prevent his selling Prestone at below the fair trade price.**

This move stirs up once more the excitement over fair trade that broke out over gasoline prices. That ruckus has died down. The major oil companies, which had gone to fair trade in the heat of a price-cutting battle, have abandoned it, and gasoline prices in the area are running about normal.

If Davis' case gets to the State Supreme Court–as appears likely–State Atty. Gen. Malcom Seawell will appear as a friend of the court. **Seawell questioned the fair trade act's constitutionality during the gasoline price war.**

• • •

Atlanta Plans a "Shopping City," Detroit's Northland to Be Expanded

North and south, big new centers are in the works.

In Atlanta this week, developers announced plans for a $12-million "shopping city," to house both a regional shopping center and **a 300-home residential area, with a "serene, parklike atmosphere," nearby.**

Involved in the undertaking are John C. Portman, Jr., architect and president of Atlanta Merchandise Mart, whose 22-story mart is now under construction (BW–Sep.5'59,p50), and Trammel Crow, developer behind the newly built Dallas Trade Mart and Home Furnishings Mart (BW–Jul. 25'59,p88).

The necessity for rezoning is holding back leases for the moment. But Portman reports "fantastic" interest by retailers. **He sees no conflict with Atlanta's new Lenox Square since the centers are on opposite sides of the city.**

Meanwhile, in Detroit, plans are cooking to expand Northland–the highly successful shopping center sponsored by J. L. Hudson Co.–into a major business center. Northland Center Corp., and Halley H. Lipp of Cleveland, are backing an $8-million Northland Towers, adjacent to Northland Center. **Tentative plans call for a motor hotel, recreation facilities, and–as in Atlanta–a "parklike setting."**

• • •

Seeing Eye Device Slams on the Brakes, Foils "Cartnappers" at Supermarkets

Super Market Controls, Inc., claims it has the cure for the serious supermarket loss from the "cartnappers"–customers who wheel shopping carts out of a store's parking lot and take them home for keeps.

MORE NEWS ABOUT MARKETING ON:

• P. 56 The Marketing Concept Goes Global

Cartnappers themselves regard their sin as venial, but for the stores it constitutes a serious drain. No national totals of losses are available, but last year supermarket operators in Detroit figured they were out close to $120,000. **Operators in the Los Angeles area set their losses at around $1.7-million.**

SMC's control device traps the cartnapper at the exit to the parking lot, which is equipped with a magnetic actuator which sets off a wheel-locking gadget on every passing cart. This effectively foils the usual cartnapper–who operates on foot and can hardly stroll down the street with a balky cart in his arms. Thievish customers in cars can do better.

Detroit's Dixfield Super Markets installed the system three months ago, and reports that cartnapping has virtually ceased.

• • •

Old Store Succumbs in Detroit

A jarring note marred the Christmas cheer along Detroit's retail row. The 77-year-old Ernst Kern Co., the city's third-largest department store, closed its doors on Dec. 23. The receiver, John Fry, former president of Detroit-Michigan Stove Co., won the right to conduct a going-out-of-business sale on the grounds that **Kern's volume was inadequate to justify continued operation.**

A family store for three generations, Kern's has been in difficulty since 1957. Stock control has shifted several times–as has management.

• • •

Computer Handles Army Inventory

A computer installation that may set new standards for inventory control went into operation last week at the Army Transportation Materiel Command in St. Louis. **Based on an IBM 705 III computer, it handles more than 1,000 requisitions a day from a $780-million inventory.** It's tied in with communications equipment that permits punched-card inquiries to be made direct from distant domestic supply depots and overseas supply agencies in New York, New Orleans, and San Francisco. The Army figures it will mean a 50% savings on on-shelf inventory–$6-million a year for the next three years.

• • •

FTC Promotes Crusade Against Deceit

Federal Trade Commission Chmn. Earl W. Kintner's first "conference on public deception" (BW–Dec.19'59, p73) revealed no sensational new deceits being perpetrated on the public. But it did prompt the formation of a somewhat mild-mannered consumer crusade. Various consumer groups attending Kintner's conference called for all representatives of the general consumer to **convene in Washington in February to register the consumer's concern over a host of deceptive practices.**

Companies Regroup

● The limited notion of an export business has grown up into a new picture of all functions—production and sales—on a worldwide competitive market.

● Foreign competition is stiffer these days, but the foreign sales potential has grown, too.

● Thus, more and more companies are reorganizing to make sure they take the global view of their business, from the top men down through the staff ranks.

"We are on the threshold of developing truly world enterprises."

That's the opinion of Gilbert H. Clee, McKinsey & Co. management consultant who specializes in international problems.

Far faster than most people expected even a year or two ago, the idea of a worldwide market—with domestic sales simply one subdivision of that market—is capturing the imagination of U.S. businessmen.

The reasons are obvious:

• Imports have skyrocketed in product lines where the U.S. once dominated not only domestic but world markets (BW—Nov.7'59,p47). As one big company executive explained it, "We no longer have the edge in the traditional American products."

• Then, too, markets abroad that once were small are growing as foreign consumers become more and more affluent (page 70).

• In this country, the great postwar growth years are over for the sale of many products. The domestic profit squeeze, starting in 1950, has turned management's eyes to areas where the return on investment is greater—overseas.

• Besides this, there is every indication—from such developments as the European Economic Community and the Outer Seven (page 17)—that foreign countries will continue their rapid growth in manufacturing with a stability and technical knowhow that, to some extent, is new to the world industrial scene.

• **Global Logistics**—All of these events, coming together in one point in time, are jelling U.S. business thinking about the direction that company strategy and organization must take. To those who have already started the process of realigning their companies to fit the emerging world-market patterns, the direction is clear.

In consultant Clee's words: "It all comes together in marketing. The U.S. company, regardless of its sources of supply or its markets, becomes one big worldwide distributor. It is a matter of central logistical decisions, on a global basis."

• **Change of Heart**—Historically, the domestic markets have dominated management strategy and attention. Whatever foreign business there was concerned either the export managers—who were little more than commercial technicians—or the foreign subsidiaries, each going its separate way with little attention from top management.

Many companies that are now thinking in worldwide terms had easy access to overseas sales largely because American technology and production were so far ahead of the rest of the world.

THE SHAPE OF '60

As General Electric Co.'s James H. Goss puts it: "We could export at our convenience."

• **One World**—Now all that has changed. In adjusting to the new one-world industrial age, companies are lifting management to a new level, forming a world headquarters to lay out coordinated policies for the company's worldwide operations.

In finance, the top man will have to worry about total cash flow, where bank accounts should be held in all parts of the world, and in what currencies money should be held.

Top manufacturing managers will be thinking, not in terms of domestic production costs, but of where products can be procured or manufactured most advantageously for both domestic and foreign sales.

In marketing, the growing worldwide concept becomes most vital in order to compete effectively. It will no longer be practical to have separate, uncoordinated domestic and international marketing organizations. Somewhere at the top, decisions will be necessary on what

Around Marketing on World Scale

is to be made, how it is to be distributed, and where the marketing effort can be best applied in terms of total profit—regardless of geography or political boundary lines.

• **Moving That Way**—Obviously, this major change in management strategy won't come overnight. Some companies, in fact, have only just arrived at some understanding of the marketing concept as it applies to the U. S. alone. Now they are faced with a still greater extension of that idea—getting the right goods to the right place at the right time at the price customers will pay. This time they have to think of the total world market.

Smith-Corona Marchant, Inc., just this year established a centralized marketing organization, under a vice-president, to achieve some kind of over-all planning for its office equipment divisions. Right along with that job, the marketing vice-president has the international operation reporting to him, too.

Pressure of foreign competition, here and abroad, forced Smith-Corona to make the move. Under the new setup, marketing strategy will encompass the world. Some products, such as the lower-priced portable typewriters, will be imported; other equipment will be made here and sold abroad. Additional facilities abroad will tap more third-country markets. The important thing is, says E. E. Mead, executive vice-president, "We are a world company."

• **By Another Name**—In some cases, the signs of corporate world-mindedness show up in the change of name from "export" division to "international" division. This at least recognizes the basic fact that world trade today is not merely an export program.

As McKinsey & Co.'s Clee puts it: "Companies are first going to have to make businessmen out of their export managers."

• **Acquiring Staffs**—Prior to the war, for instance, Heald Machine Co., Worcester, Mass., now a subsidiary of Cincinnati Milling Machine Co., had an export manager without a staff. Overseas sales were large—but that's because they were easy. Today, with a much smaller part of total sales as export, Heald has a fully staffed organization, headed by an executive who handles both export and domestic independent distributor sales. He's traveling abroad, and some of the domestic production people are, too. They come back enthusiastic over the market potential they see—and filled with new admiration for the competition.

"Just as soon as our vice-president in charge of sales has gone abroad, our work around here will be easier," according to Heald's export chief.

• **Raising Status**—In more fully developed companies, where overseas business has always been important, the international division is being elevated to top-level status.

General Electric is a good example. It views what is happening here and abroad as a marketing situation that must be met by a continuous evolutionary change. It is encouraging all its management people, even those primarily concerned with domestic problems, to think in world market terms.

Top management has been watching the world trends for years, but this year GE made a major organizational change to meet the challenge of a world market. Previously, its international operations—exports and non-consolidated subsidiaries—were handled by the International General Electric Co. Division, reporting directly to the chief executive officer. Its Canadian subsidiary, headed by a president, also had a great deal of administrative independence.

In its change, GE took a somewhat different tack than Smith-Corona, in which the marketing vice-president considers a sale is a sale no matter where.

In line with its own organization structure, GE added an International Group on a level with its Consumer Products Group, Electronic, Atomic & Defense Systems Group, and Apparatus and Industrial Group. The group executive, James Goss, is a member of the top management policy team along with Chmn. Ralph J. Cordiner, Pres. Robert Paxton, and the other group executives. His advisory responsibility includes both IGE and Canadian General Electric which he once headed.

• **Natural Development**—Goss hasn't been in his new job long enough to determine just where the organizational change will lead the company. So far, he has been traveling around the world (next stop: South America) with an open mind "to see all of our operations, to assess the local situations, and to get suggestions."

But he thinks what is happening is a natural part of the banding-together of the free world into one big major market. Right now, he sees no likelihood that GE will establish foreign sources of goods for import by this country. He is concerned with making certain that General Electric is organized for production and sales in the other world markets.

The U.S. is facing an entirely new situation, he thinks. We have exported capital, designs, manufacturing, and marketing knowhow in generous quantities since the war. Up to now, most companies have thought in those terms. "Now," he says, "we are rather thinking in terms of products."

Whatever evolves from GE's new international setup, two things are clear: Goss has the world in his lap, and he has a voice directly in the top policy-making procedures.

• **The Celanese Twist**—Celanese Corp. is another company that has been shifting its organization to achieve a worldwide stance. It has always been deeply engaged in world trade. But Chmn. Harold Blancke says that only in the past few years—about the tenure of his role as chief executive officer—has the idea of a world marketing company, with all operations dovetailing, crystallized.

In carrying out some of Blancke's ideas about the direction of U.S. corporations, Celanese this year created Chemcell, Ltd., a Canadian subsidiary, to have financial management and coordination of all Celanese interests outside the U.S. Domestically, it created the Celanese Development Co. to investigate marketing opportunities abroad. One of the duties of its management committee, made up of the presidents of domestic divisions, is counseling executives in overseas trade.

At Celanese, attention to world trade goes farther down the ladder than that. The textile division's vice-president of marketing, for instance, now has the job of counseling the export group on marketing problems, though his prime job is to push U.S. sales.

• **Prime Interest**—In fact, few moves today that call for top policy decisions are made without the world in mind.

As the pressure of world competition grows, more and more companies will find themselves forced to organize as world management corporations. Yet many are still split down the middle, with international marketing vice-presidents at loggerheads with the domestic organizations. Many top management people are still domestic-minded, even when they recognize by the creation of a separate international division that they can't ignore imports from abroad or markets overseas.

In a Harvard Business Review article, Clee set forth his idea of what is demanded today:

"Major revisions in business thinking and methods are needed. Simply stated, the worldwide management concept requires a chief executive (1) to view his own responsibility as global in scope, with the United States one division thereof, and (2) to organize in such a way that major decisions are considered in the light of world conditions and opportunities." END

In Marketing

• • •

Retailer Challenges Constitutionality In North Carolina "Fair Trade" Law

North Carolina's "fair trade" ruckus has broken out again (BW–Nov.21'59,p133). John T. Davis, operator of D. & J. Market at Winston-Salem, challenged the constitutionality of the "fair trade" law when **Union Carbide Corp. won a temporary injunction to prevent his selling Prestone at below the fair trade price.**

This move stirs up once more the excitement over fair trade that broke out over gasoline prices. That ruckus has died down. The major oil companies, which had gone to fair trade in the heat of a price-cutting battle, have abandoned it, and gasoline prices in the area are running about normal.

If Davis' case gets to the State Supreme Court–as appears likely–State Atty. Gen. Malcom Seawell will appear as a friend of the court. **Seawell questioned the fair trade act's constitutionality during the gasoline price war.**

• • •

Atlanta Plans a "Shopping City," Detroit's Northland to Be Expanded

North and south, big new centers are in the works.

In Atlanta this week, developers announced plans for a $12-million "shopping city," to house both a regional shopping center and **a 300-home residential area, with a "serene, parklike atmosphere," nearby.**

Involved in the undertaking are John C. Portman, Jr., architect and president of Atlanta Merchandise Mart, whose 22-story mart is now under construction (BW–Sep.5'59,p50), and Trammel Crow, developer behind the newly built Dallas Trade Mart and Home Furnishings Mart (BW–Jul. 25'59,p88).

The necessity for rezoning is holding back leases for the moment. But Portman reports "fantastic" interest by retailers. **He sees no conflict with Atlanta's new Lenox Square since the centers are on opposite sides of the city.**

Meanwhile, in Detroit, plans are cooking to expand Northland–the highly successful shopping center sponsored by J. L. Hudson Co.–into a major business center. Northland Center Corp., and Halley H. Lipp of Cleveland, are backing an $8-million Northland Towers, adjacent to Northland Center. **Tentative plans call for a motor hotel, recreation facilities, and–as in Atlanta–a "parklike setting."**

• • •

Seeing Eye Device Slams on the Brakes, Foils "Cartnappers" at Supermarkets

Super Market Controls, Inc., claims it has the cure for the serious supermarket loss from the "cartnappers"–customers who wheel shopping carts out of a store's parking lot and take them home for keeps.

Cartnappers themselves regard their sin as venial, but for the stores it constitutes a serious drain. No national totals of losses are available, but last year supermarket operators in Detroit figured they were out close to $120,000. **Operators in the Los Angeles area set their losses at around $1.7-million.**

SMC's control device traps the cartnapper at the exit to the parking lot, which is equipped with a magnetic actuator which sets off a wheel-locking gadget on every passing cart. This effectively foils the usual cartnapper–who operates on foot and can hardly stroll down the street with a balky cart in his arms. Thievish customers in cars can do better.

Detroit's Dixfield Super Markets installed the system three months ago, and reports that cartnapping has virtually ceased.

• • •

Old Store Succumbs in Detroit

A jarring note marred the Christmas cheer along Detroit's retail row. The 77-year-old Ernst Kern Co., the city's third-largest department store, closed its doors on Dec. 23. The receiver, John Fry, former president of Detroit-Michigan Stove Co., won the right to conduct a going-out-of-business sale on the grounds that **Kern's volume was inadequate to justify continued operation.**

A family store for three generations, Kern's has been in difficulty since 1957. Stock control has shifted several times–as has management.

• • •

Computer Handles Army Inventory

A computer installation that may set new standards for inventory control went into operation last week at the Army Transportation Materiel Command in St. Louis. **Based on an IBM 705 III computer, it handles more than 1,000 requisitions a day from a $780-million inventory.** It's tied in with communications equipment that permits punched-card inquiries to be made direct from distant domestic supply depots and overseas supply agencies in New York, New Orleans, and San Francisco. The Army figures it will mean a 50% savings on on-shelf inventory–$6-million a year for the next three years.

• • •

FTC Promotes Crusade Against Deceit

Federal Trade Commission Chmn. Earl W. Kintner's first "conference on public deception" (BW–Dec.19'59, p73) revealed no sensational new deceits being perpetrated on the public. But it did prompt the formation of a somewhat mild-mannered consumer crusade. Various consumer groups attending Kintner's conference called for all representatives of the general consumer to **convene in Washington in February to register the consumer's concern over a host of deceptive practices.**

MORE NEWS ABOUT MARKETING ON:

• P. 56 The Marketing Concept Goes Global

Companies Regroup

● The limited notion of an export business has grown up into a new picture of all functions—production and sales—on a worldwide competitive market.

● Foreign competition is stiffer these days, but the foreign sales potential has grown, too.

● Thus, more and more companies are reorganizing to make sure they take the global view of their business, from the top men down through the staff ranks.

"We are on the threshold of developing truly world enterprises."

That's the opinion of Gilbert H. Clee, McKinsey & Co. management consultant who specializes in international problems.

Far faster than most people expected even a year or two ago, the idea of a worldwide market—with domestic sales simply one subdivision of that market—is capturing the imagination of U.S. businessmen.

The reasons are obvious:

• Imports have skyrocketed in product lines where the U.S. once dominated not only domestic but world markets (BW–Nov.7'59,p47). As one big company executive explained it, "We no longer have the edge in the traditional American products."

• Then, too, markets abroad that once were small are growing as foreign consumers become more and more affluent (page 70).

• In this country, the great postwar growth years are over for the sale of many products. The domestic profit squeeze, starting in 1950, has turned management's eyes to areas where the return on investment is greater—overseas.

• Besides this, there is every indication—from such developments as the European Economic Community and the Outer Seven (page 17)—that foreign countries will continue their rapid growth in manufacturing with a stability and technical knowhow that, to some extent, is new to the world industrial scene.

• Global Logistics—All of these events, coming together in one point in time, are jelling U.S. business thinking about the direction that company strategy and organization must take. To those who have already started the process of realigning their companies to fit the emerging world-market patterns, the direction is clear.

In consultant Clee's words: "It all comes together in marketing. The U.S. company, regardless of its sources of supply or its markets, becomes one big worldwide distributor. It is a matter of central logistical decisions, on a global basis."

• Change of Heart—Historically, the domestic markets have dominated management strategy and attention. Whatever foreign business there was concerned either the export managers—who were little more than commercial technicians—or the foreign subsidiaries, each going its separate way with little attention from top management.

Many companies that are now thinking in worldwide terms had easy access to overseas sales largely because American technology and production were so far ahead of the rest of the world.

THE SHAPE OF '60

As General Electric Co.'s James H. Goss puts it: "We could export at our convenience."

• One World—Now all that has changed. In adjusting to the new one-world industrial age, companies are lifting management to a new level, forming a world headquarters to lay out coordinated policies for the company's worldwide operations.

In finance, the top man will have to worry about total cash flow, where bank accounts should be held in all parts of the world, and in what currencies money should be held.

Top manufacturing managers will be thinking, not in terms of domestic production costs, but of where products can be procured or manufactured most advantageously for both domestic and foreign sales.

In marketing, the growing worldwide concept becomes most vital in order to compete effectively. It will no longer be practical to have separate, uncoordinated domestic and international marketing organizations. Somewhere at the top, decisions will be necessary on what

Around Marketing on World Scale

is to be made, how it is to be distributed, and where the marketing effort can be best applied in terms of total profit—regardless of geography or political boundary lines.

• **Moving That Way**—Obviously, this major change in management strategy won't come overnight. Some companies, in fact, have only just arrived at some understanding of the marketing concept as it applies to the U. S. alone. Now they are faced with a still greater extension of that idea—getting the right goods to the right place at the right time at the price customers will pay. This time they have to think of the total world market.

Smith-Corona Marchant, Inc., just this year established a centralized marketing organization, under a vice-president, to achieve some kind of over-all planning for its office equipment divisions. Right along with that job, the marketing vice-president has the international operation reporting to him, too.

Pressure of foreign competition, here and abroad, forced Smith-Corona to make the move. Under the new setup, marketing strategy will encompass the world. Some products, such as the lower-priced portable typewriters, will be imported; other equipment will be made here and sold abroad. Additional facilities abroad will tap more third-country markets. The important thing is, says E. E. Mead, executive vice-president, "We are a world company."

• **By Another Name**—In some cases, the signs of corporate world-mindedness show up in the change of name from "export" division to "international" division. This at least recognizes the basic fact that world trade today is not merely an export program.

As McKinsey & Co.'s Clee puts it: "Companies are first going to have to make businessmen out of their export managers."

• **Acquiring Staffs**—Prior to the war, for instance, Heald Machine Co., Worcester, Mass., now a subsidiary of Cincinnati Milling Machine Co., had an export manager without a staff. Overseas sales were large—but that's because they were easy. Today, with a much smaller part of total sales as export, Heald has a fully staffed organization, headed by an executive who handles both export and domestic independent distributor sales. He's traveling abroad, and some of the domestic production people are, too. They come back enthusiastic over the market potential they see—and filled with new admiration for the competition.

"Just as soon as our vice-president in charge of sales has gone abroad, our work around here will be easier," according to Heald's export chief.

• **Raising Status**—In more fully developed companies, where overseas business has always been important, the international division is being elevated to top-level status.

General Electric is a good example. It views what is happening here and abroad as a marketing situation that must be met by a continuous evolutionary change. It is encouraging all its management people, even those primarily concerned with domestic problems, to think in world market terms.

Top management has been watching the world trends for years, but this year GE made a major organizational change to meet the challenge of a world market. Previously, its international operations—exports and non-consolidated subsidiaries—were handled by the International General Electric Co. Division, reporting directly to the chief executive officer. Its Canadian subsidiary, headed by a president, also had a great deal of administrative independence.

In its change, GE took a somewhat different tack than Smith-Corona, in which the marketing vice-president considers a sale is a sale no matter where.

In line with its own organization structure, GE added an International Group on a level with its Consumer Products Group, Electronic, Atomic & Defense Systems Group, and Apparatus and Industrial Group. The group executive, James Goss, is a member of the top management policy team along with Chmn. Ralph J. Cordiner, Pres. Robert Paxton, and the other group executives. His advisory responsibility includes both IGE and Canadian General Electric which he once headed.

• **Natural Development**—Goss hasn't been in his new job long enough to determine just where the organizational change will lead the company. So far, he has been traveling around the world (next stop: South America) with an open mind "to see all of our operations, to assess the local situations, and to get suggestions."

But he thinks what is happening is a natural part of the banding-together of the free world into one big major market. Right now, he sees no likelihood that GE will establish foreign sources of goods for import by this country. He is concerned with making certain that General Electric is organized for production and sales in the other world markets.

The U.S. is facing an entirely new situation, he thinks. We have exported capital, designs, manufacturing, and marketing knowhow in generous quantities since the war. Up to now, most companies have thought in those terms. "Now," he says, "we are rather thinking in terms of products."

Whatever evolves from GE's new international setup, two things are clear: Goss has the world in his lap, and he has a voice directly in the top policy-making procedures.

• **The Celanese Twist**—Celanese Corp. is another company that has been shifting its organization to achieve a worldwide stance. It has always been deeply engaged in world trade. But Chmn. Harold Blancke says that only in the past few years—about the tenure of his role as chief executive officer—has the idea of a world marketing company, with all operations dovetailing, crystallized.

In carrying out some of Blancke's ideas about the direction of U. S. corporations, Celanese this year created Chemcell, Ltd., a Canadian subsidiary, to have financial management and coordination of all Celanese interests outside the U. S. Domestically, it created the Celanese Development Co. to investigate marketing opportunities abroad. One of the duties of its management committee, made up of the presidents of domestic divisions, is counseling executives in overseas trade.

At Celanese, attention to world trade goes farther down the ladder than that. The textile division's vice-president of marketing, for instance, now has the job of counseling the export group on marketing problems, though his prime job is to push U. S. sales.

• **Prime Interest**—In fact, few moves today that call for top policy decisions are made without the world in mind.

As the pressure of world competition grows, more and more companies will find themselves forced to organize as world management corporations. Yet many are still split down the middle, with international marketing vice-presidents at loggerheads with the domestic organizations. Many top management people are still domestic-minded, even when they recognize by the creation of a separate international division that they can't ignore imports from abroad or markets overseas.

In a Harvard Business Review article, Clee set forth his idea of what is demanded today:

"Major revisions in business thinking and methods are needed. Simply stated, the worldwide management concept requires a chief executive (1) to view his own responsibility as global in scope, with the United States one division thereof, and (2) to organize in such a way that major decisions are considered in the light of world conditions and opportunities." **END**

The management pattern

No Rush to Do It the American Way

THE universality of management principles has long been an article of faith with businessmen. Equally, one of the basic beliefs of this age has been that education is a good thing. It is not surprising, therefore, that much of the world is apparently convinced that the managerial knowhow of U. S. business could and should be exported. Why shouldn't the U. S. secret of success be shared for the salvation of the whole benighted world?

Indeed, missionaries from the high church of American management have long been preaching and teaching the true doctrine to the washed and the unwashed. Private and public funds have gladly supported this latter-day evangelism, admittedly with the faith that what was good for New York or Detroit would be good for Santiago, Athens, Tokyo, and way stations. And so it may be.

• **How Convincing?**—But just what is the condition of management in these far-off places? After many years of listening to the circuit riders, has international management really become a replica of America's in organization, status, skill, or customs? Has, in fact, the philosophy of U. S management become the philosophy of management around the world?

Some of the answers are beginning to come in, and they are of the utmost significance to the U. S. businessman and to his government. For America's industrial organization and its leadership depend so much on interacting influences of freedom and justice and democracy and competition that the world's acceptance of one phase of it would suggest that the world had also moved closer to the American pattern in other respects.

• **Surveying the World**—With grants of money from the Ford Foundation, Massachusetts Institute of Technology and Princeton University, Prof. Frederick Harbison and Charles A. Myers have studied and compared management in 11 foreign countries, ranging from relatively undeveloped India to rather advanced Japan, and from the Urals to the Andes.

Their pioneering book, Management in the Industrial World (McGraw-Hill), reports on this sample of the managerial world against the yardstick of American standard business practice. Their findings show that managerially speaking, "East is East, and West is West." Despite being overrun with U. S. foreign aid officials, executives, and professors of management, Japan is still Japan. And France remains France. Apparently the world is not yet one—nor yet won—for U. S. management.

• **What to Measure By**—Almost half of the Harbison-Myers book is given over to presenting their own theory of management. Largely, this is in harmony with the understanding that most executives have of themselves and their work. However, they arbitrarily rule out the foreman as a member of management—a judgment somewhat out of line with advanced management thinking.

True enough, most foremen in the less industrialized countries are little removed from the rank and file. But to exclude them on this basis is to retreat from what is otherwise a sophisticated view of the management process. Foremen in the more retarded societies may not have authority commensurate with their responsibilities, and they may lack social status, but they nonetheless have the job of managing employees.

• **Matter of Opinion**—But a professional manager will raise few questions in the section of the book that compares international management practices. Here the U. S. executive with foreign experience is likely to find the authors speaking his own unspoken thoughts.

Harbison and Myers have had the courage to generalize and, unlike the American international businessman, they do not have to remember that foreign managements are possible customers, potential suppliers, or colleagues and associates. Life in the foreign division of a U. S. corporation tends to develop diplomats, as doubtless it should. Despite their impatience, irritation, even acute exasperation in dealing with "native" managers—sentiments freely expressed to family and friends—the opinions of experienced international management men are understandably phrased in bland and polite tones when speaking for the record. Harbison and Myers can be much more blunt.

Here are some of their generalizations about foreign management:

INDIA—There are notable exceptions, Harbison and Myers say, but many Indian managements still fall short of the standards set by advanced management in industrial countries. Top management of Indian private enterprise is "essentially patrimonial." Family, caste, and business community connection are still important.

Many Indian managements are authoritarian in their relationships with subordinates. The typical organization structure is highly centralized and personal. A major weakness is ineffective first-line supervision. There is relatively little evidence of any "democratic-participative" management in India, though some top managers "will talk in these terms for public relations purposes."

EGYPT—Egypt has a shortage of competent administrative and managerial manpower. The Army, however, has provided a new and talented source of high-level managers, and "in most cases their performance has been outstanding."

Egyptian management has shown little regard for human rights and human dignity. Promotion of workers to "permanent employee" is based more on "demonstrated subordination" than on aptitude. "Employers

(Continued)

prefer docile workers." It is not uncommon for supervisors to kick or slap workers for acts bordering on insubordination. There is a conviction that "hands destroy the product," so management is anxious to use labor-displacing machinery.

CHILE — Management in Chile is "largely of the one-man-rule variety." A hired manager is considered an employee—no matter how highly placed. Access to key managerial positions is "usually by family connection rather than by competence." Employer paternalism is strong and is encouraged by government. Management is "like the benevolent but stern parent who will tolerate no challenge to his unilateral authority."

FRANCE—The lack of dynamism in France is due to the combination of small size, commercial isolation, and lack of internal organization in so many enterprises. The director-general "oversees all aspects of the business, the most important of which is to safeguard the company for the family succession."

Management's attitude toward unions in the plant is one of "open hostility reinforced by a woeful lack of wisdom in personnel administration." Organization charts simply do not exist. What is characteristic is centralization of control. The cleavage between management and employees is sharp and clear even in the large enterprises; the engineer and the staff employee are almost completely excluded from the executive level of the business.

Access to management is generally limited to those having family ties by heritage or marriage, a degree from a university or technical institution of higher learning, or who use the leverage of financial interest. Management is "an already too class-conscious and limited elite." And not enough of the managerial elite are trained in the science of management and organization. France is oversupplied with untrained supervisors, and schools of business are nonexistent.

JAPAN—Japanese management is a more exclusive and distinct class than most. Enjoying high prestige, it attracts the best brains to its ranks, and its "authoritarian ethic" is hardly opposed, for it reflects the traditions of Japanese society. Today it is increasing in absolute and relative size as a feverish interest in innovation and progress has led to the increased use of high-talent manpower. Yet there is no shortage of recruits to management.

"Today Japan is probably one of the few countries which could easily export high-level manpower," say the authors. The real organizational problem involved is how to utilize the management talent already employed. The problem is one of "managerial indigestion," caused by an inability to assimilate new personnel and new methods.

The managers are college graduates. "Proper educational background and seniority" establish title and formal position more than the importance of the work performed. An executive with these advantages but otherwise incompetent may be shifted to a relatively insignificant position where he can do little harm, but his title and rank will remain the same. Or he may be given one or two bright young deputies to do his thinking and work for him. Young men in this position "would rejoice in the fact that their elders take the credit for their efforts."

The ultimate reward for the manager is based more upon loyalty, devotion, and contribution to the group than upon individual initiative and achievement. With a shortage of positions, lifetime membership in a large industrial enterprise is a cherished privilege.

With little decentralization or delegation of authority, there is still a kind of participation in all decision-making: "Even the top executives seldom take individual responsibility." A Japanese manager would rarely meet a customer or supplier alone, nor would he presume to sign a contract on behalf of the company without long prior discussion with his associates.

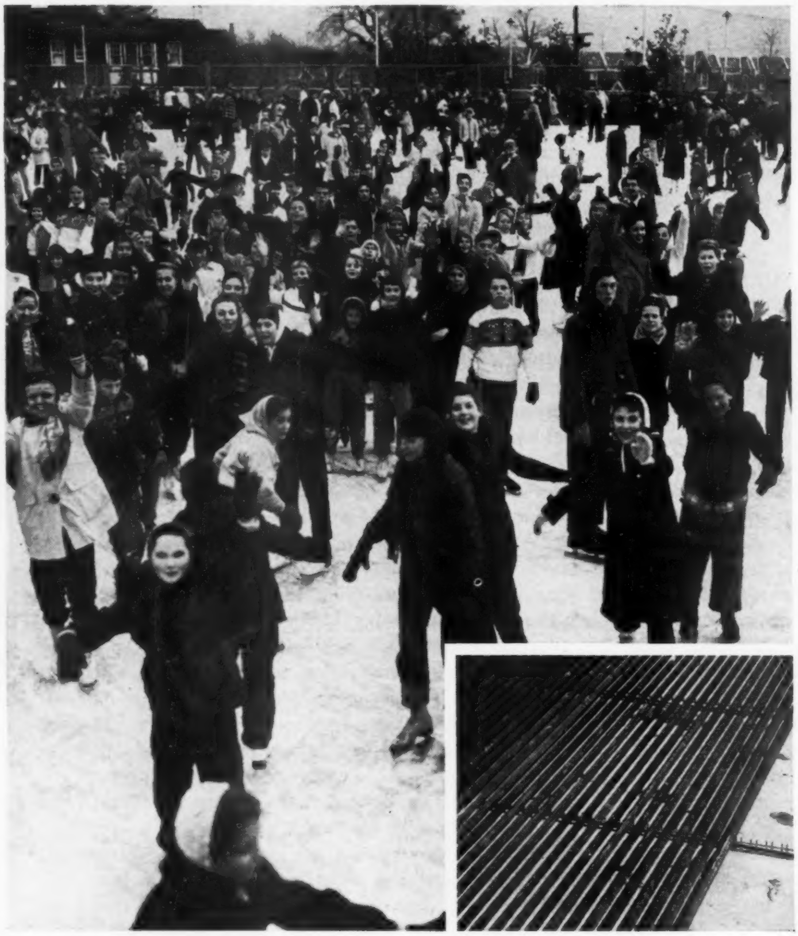
The larger enterprises are managed by careerists, and Japanese management "probably is as professionalized as that in any other advanced country." However, the overwhelming number of enterprises are family-owned and -operated, authoritarian, and paternalistic.

RUSSIA—A professional managerial elite has emerged since the late 1930s. At that time the need for a clear chain of command was officially acknowledged. Today there is "a growing emphasis on practical experience and, contrary to Western practice, continued neglect of formal managerial training."

There seems to be emphasis on parallel lines of authority with checking and counter-checking of management officials. The book speaks also of "extreme use of incessant pressure on management personnel to meet explicit short-run production goals."

In status, prestige, and remuneration, however, the factory manager stands high. If successful, he is well paid and receives production premiums. He has "virtually an empire of his own, and he enjoys a standard of living second only to a few extraordinarily privileged groups." Yet his control of wages, prices, and production targets is relatively slight and indirect—investment decisions and annual budgets are likewise determined at a higher planning level.

SWEDEN—Most Swedish enterprises are of small and medium size, with owner-management. The law defines



The Management pattern
(Continued)

the responsibilities and duties of the required "managing director," which makes delegation of authority difficult. Even some large companies are dominated by the personality of the managing director. Thus many Swedish concerns look understaffed. Government intervention and trade union power have both restricted managerial freedom and favored centralization.

With new top executives in some outstanding firms, there have recently been changes — delegating more authority and responsibility to subordinate managers and developing management skills. Management is thus becoming "more and more of a group-command task." The trend from family-dominated management toward professionalization is unmistakable.

Since the war, more of the new managers are college graduates, and most still come from the highest social class. Some companies have also developed special programs for training supervisors and managers. Graduates of the schools of economics and business are increasingly found in positions of top management responsibility in many industries.

The best of Swedish management compares favorably with the best management anywhere, the authors say. "Swedish experience demonstrates that as a country improves its industrial techniques and moves toward economic maturity, it broadens the scope of the managerial function, develops a managerial structure in depth, and opens the path to the management elite to an everwidening segment of the society."

• **Universal Rule**—The findings of Harbison and Myers demonstrate that Henri Fayol, the French industrialist turned management theorist, was right a half century ago when he proclaimed the universality of management. But he carefully did not equate universality with uniformity.

Plainly, the countries of the world have management—lots of it—but it is equally clear now to all who read the record that it is still far from the American pattern either in philosophy or practice.

GOVERNMENT

No Easy Cure For Inflation

● That's the finding of the Joint Economic Committee's staff—and it takes a fat book to explain it.

● One point is clear—the economists don't agree with the traditional policies of the Fed or either party.

● The report suggests that recent inflation is a new kind of problem and needs different handling.

The Joint Economic Committee of Congress this week released what every politician in Washington devoutly hoped was going to be a manual on how to check inflation, get faster economic growth, reduce unemployment—all in one easy, vote-catching lesson.

The politicans will be disappointed What the committee published instead is 488 pages of academic soul-searching that comes to no easy solution.

• **Too Hot to Handle**—The report is sharply critical of what Congress and the Administration have been doing about inflation and growth.

It makes a score or more of specific recommendations—but most of them are too prickly to be handled by either Democrats or Republicans this year.

• **Staff Work**—The report is the work of the professional staff that was gathered by the committee last July to take a broad look at the interlocking problems of growth and inflation.

Otto Eckstein, staff director, is chiefly responsible for the report. The staff study is not the last word to come from the inquiry. The committee itself, under the chairmanship of Sen. Paul H. Douglas (D-Ill.), will send its own findings to Congress, perhaps at the end of this month.

If partisan lines are drawn sharply enough—and many of the issues are the kind that divide Democrats from Republicans almost automatically—then Democrats under Douglas will return a majority report, and Republicans under Rep. Thomas B. Curtis of Missouri will draw up a separate minority report.

I. Inflation and Growth

Underlying the reports is a study that both Douglas and Curtis call the most comprehensive look at the economy by a public body since World War II.

• **Lower Living Standards?**—Eckstein gives a somber picture of recent economic trends and comes to a pessimistic conclusion about the prospects of halting inflation.

If the economy does not perform better in the future than it has since 1953, we shall have to accept lower standards of living or lower our objectives as a nation, he warns. He believes it is possible to speed up growth and reduce unemployment, but only if present policies are sharply reversed in key areas.

Using projections prepared by James W. Knowles, a member of the committee's permanent staff, Eckstein concludes that an annual growth rate up to 4.9% a year over the next 15 years is feasible without changing our economic system in any fundamental way. This compares with about 3% a year for the first 50 years of this century, and somewhere around 2.5% for the years since Pres. Eisenhower took office.

But Eckstein accepts some inflation as part of this picture. He characterizes the report as one aimed at "economic growth with a minimum of inflation."

• **Disappointing**—Republicans on the committee had hoped for something stronger than this on inflation, and it is likely that Democrats will be disappointed, too. Douglas, for example, said before the inquiry began that he was sure there is no basic conflict among growth, high employment, and a stable price level. Eckstein seems to think there is.

Both the Eisenhower Administration and Republicans in Congress have made a prime issue out of fighting inflation, with their eye on the elections later this year. They will reject Eckstein on this point—as on a lot of others.

In the first chapter, for example, the report describes the period since Eisenhower took office in 1953 as a time of "weakening booms and deepening recessions," during which a misguided tight-money policy tried in vain to hold back prices and succeeded only in slowing down the rate of economic growth.

• **Breaking Idols**—Eckstein begins by knocking down three ideas about growth and inflation that have considerable political backing:

• In a direct shot at the Administration, he says growth is not stimulated by taking "even the most vigorous measures to halt inflation." He describes this idea as the "foundation of our present economic policy" and says it is wrong because it is based on a fallacious and outmoded view of how the economy works.

• On the other hand, he says, the problem of inflation cannot be solved by going to the other extreme and stressing all-out expansion. This would drive prices up in the most sensitive areas, Eckstein warns.

• Inflation cannot be solved, either, by aiming at concentrations of market power, he adds. The power of some big corporations to influence prices, and of unions to push wages up, are part of the inflation story but not the whole story, he argues. Thus, he sees little hope in the type of inquiry being pushed by Sen. Estes Kefauver (D-Tenn.), which makes administered prices the chief inflation villain.

II. Controlling Inflation

As seen by Eckstein and the staff, the real causes of recent inflation are extremely complex. They consist partly of sudden shifts in demand, such as the mushrooming of demand for productive goods in the 1955 boom; partly of the exercise of market power that raised some prices and kept others from falling, and partly of a shortage of some services that resulted in rapid price rises.

• **Localized Inflation**—This is not the type of inflation that's described in classical economics—the kind that stems from a broad, general excess of demand.

At one point, Eckstein ticks off the seven sectors of recent inflation this way: medical care, personal care, and rent (in the services); steel and machinery (in the production goods category), plus construction and government purchases, chiefly for arms.

A chapter on monetary policy, prepared chiefly by Warren L. Smith of the University of Michigan, argues that general credit restrictions of the type followed in recent years are "a mirage and delusion."

For one thing, he points out, an efficient, sophisticated, and complex financial system succeeds in avoiding the effects of credit restriction by stepping up the velocity of funds—"getting more miles to the dollar."

• **Lucky Failure**—General credit controls also fail, says Smith, to slow down the very sectors that show the greatest inflationary push, such as plant and

equipment spending by heavy industry, inventory buying, and consumer purchases.

"It is perhaps just as well that monetary controls have not been effective," he sums up. "If they had been, the result might have been disastrous."

• **Pinpoint Targets**—Instead of relying on general restriction, Smith believes studies should be made of direct controls against the livelier sectors, to be applied during periods of rapid expansion. He suggests a number of approaches, such as reviving the old secondary reserve idea, which would keep commercial banks from freely selling government securities to raise funds for business loans. He also mentions the possibility of having higher reserve requirements for loans that go into the inflation sectors.

All this means "there should be less emphasis on raising interest rates as a means of restraining demand," the report adds.

• **Challenge to Fed**—This is in line with recent Democratic doctrine, but it challenges the central anti-inflation strategy of the Eisenhower Administration and the Federal Reserve Board under William McC. Martin, Jr.

On the issue of the 4¼% ceiling on long-term government bonds, the report undercuts the Democrats. Democrats oppose lifting the ceiling, as requested last year by Eisenhower. But Eckstein and Smith brush it off as an arbitrary limitation that should be repealed.

As another means of easing debt management, the report suggests the Federal Reserve might abandon its practice of lowering reserve requirements when it wants to expand the credit base, in favor of a policy of buying Treasury securities on the open market.

III. Spurring Growth

A chapter prepared chiefly by Norman B. Ture of the committee's permanent professional staff makes a case for more stress on fiscal policy in seeking both stability and faster growth. The report recommends that Congress abandon its traditional rush to increase spending whenever a recession sets in—long a favorite device of Democrats. Instead, tax cuts are backed as the best way of ending a slump. In the 1957-58 recession, both the Administration and the Democratic leaders of Congress refused to back tax reduction.

In another challenge to Democratic fiscal tradition, Ture argues that substantial budget surpluses during booms are a useful device to create additional savings by reducing the public debt, thus to promote growth. The Administration is pushing a drive now to protect what it hopes will be a sizable surplus in fiscal 1961, with this purpose in mind. END

I

BU

JA

A

INTERNATIONAL OUTLOOK

A new U. S. government program to push American exports is in the works in Washington. The goal, of course, is to improve the U. S.' international payments position (page 17).

The new program is under the wing of the National Advisory Council. Details now are being worked out by interagency committees. The plan, initiated by Asst. Secy. of Commerce Henry Kearns, may go to Congress in about two months.

The key part of the export program is a government-sponsored export credit insurance system such as Britain and West Germany have. This would be used to insure short-term export credits. The Export-Import Bank doesn't handle this kind of business.

The program also calls for a complete revamping of U. S. commercial representation abroad—taking the commercial consulates out of the State Dept.'s Foreign Service and putting them back under Commerce.

In addition, there would be a government campaign at home to encourage U. S. companies to export more and to improve sales methods abroad. There's even talk of exempting export trade associations from some provisions of the antitrust laws that now limit their activities.

The whole package is far from final at this point. Secy. of the Treasury Robert Anderson is reported to favor an export credit insurance system. In a speech this week to the American Economic Assn., Anderson indicated that further government action would be needed to lick our balance of payments problem.

Under Secy. of State C. Douglas Dillon apparently goes along with the new program, except for the idea of taking U. S. commercial representatives out of the foreign service. But Samuel Waugh, president of Ex-Im Bank, is said to oppose the idea of export credit insurance.

Kearns has made no bones of his views on what is wrong with U. S. exports. Prices, he said recently, are not the villain. Instead, he thinks it is the fact that short- and medium-term credit facilities available to U. S. exporters are not competitive. He also blames antiquated distribution setups, and a failure of U. S. businesses to uncover and take advantage of potential export markets.

The program no longer is just a Commerce Dept. plan. Officials working on it say they have been charged with hammering out a compromise that the Administration as a whole can support.

—•—

A new phase in East-West relations starts in 1960. It will involve negotiations at many levels, stretching out indefinitely.

At the technical level, U. S.-Soviet talks on settling World War II lend-lease obligations start this month—talks that could lead to more normal trade relations. Negotiations on a nuclear test ban are to be resumed soon. Disarmament talks, across the board, will begin in March.

At the top level, Premier Khrushchev visits Paris in April, and the long-delayed East-West summit meeting now seems set for mid-May. Pres. Eisenhower will go to Moscow in June. After that, a breather in top-level talks is likely until a new U. S. President is installed—although you can't entirely rule out another summit meeting in the late fall.

Agreement on this complex negotiating schedule suggests that both East and West are committed to keeping tension low—even if that means little more than talking the cold war to death.

Settlement of major East-West issues obviously will be hard to achieve. The balance of power between the two sides is so narrow that it limits the area for compromise. Neither feels weak enough to be forced to make big concessions—oı strong enough to make showdown demands on the other.

Khrushchev is in no mood to give much away. He feels that the U.S.S.R. has gained in relative strength and should have concessions from the West—notably acceptance of the Soviet position in Eastern Europe. **But the Soviet Premier appears willing to bide his time.** He probably is betting that a long period of relaxed tension, even without major Western concessions, will further strengthen the position of the Soviet bloc.

The West, too, prefers to talk rather than face renewed tension. But the West is divided on its approach, Washington and London favoring one tack and Bonn and Paris favoring another. In the end, this division in the West could give Khrushchev the bargaining advantage.

Pres. de Gaulle and Chancellor Adenauer see negotiations with Khrushchev essentially as a useful stalling tactic to preserve the status quo. They don't see any chance of an accommodation with Moscow either on Berlin or on disarmament. **Eisenhower and Prime Minister Macmillan see more need—and more hope—for gradual accommodation on East-West issues. They want to tie Khrushchev down to concrete agreements** that will limit his freedom for political maneuver and set the stage for genuine arms control. Otherwise, they fear that the Soviet Union will emerge from a long period of superficial harmony in a still stronger position.

Washington soon will come up with new arms control proposals designed to tempt Khrushchev into taking disarmament seriously. Details still are secret, but there will be more emphasis on actual disarmament and less on inspection and control. The U. S. also may propose progressive stockpiling of nuclear weapons under international control, perhaps even a start toward a United Nations police force.

Even if these proposals get nowhere, a nuclear test ban still looks like something to which both sides could agree. This week, however, Pres. Eisenhower had to put some pressure on Moscow. He decided not to continue the formal U. S. suspension of nuclear tests, but only to guarantee we would give advance notice of any new ones.

Washington is betting that Khrushchev will come to terms on a lend-lease settlement. In return for this, he could count on a relaxation of U. S. trade controls that now limit both our exports to the U.S.S.R. and our imports from that country.

To settle lend-lease, Washington apparently is ready to split the difference between the \$800-million we demanded during the last round of lend-lease talks and the \$300-million that was offered by Moscow at that time.

Meanwhile, a group of U. S. textile machinery producers has signed a \$20-million contract to supply the equipment for a large new Soviet textile plant (page 69).

ELE

product of the pioneer

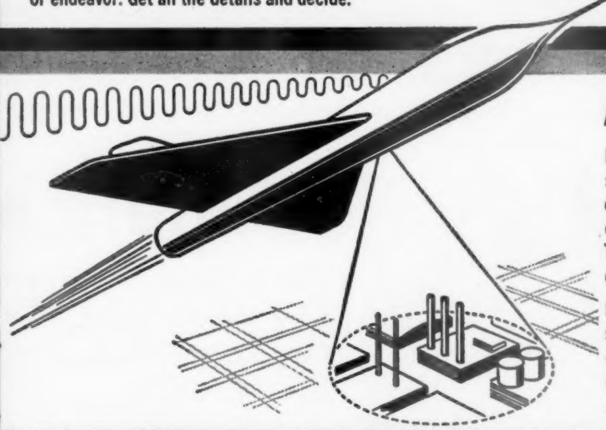
DU MONT Precision Electronics At Work . . . in SURVEILLANCE

FOR INDUSTRY...

Surveillance — an all-important part of supervision and control in business, industry and science today. Du Mont Industrial Television is employed in hundreds of installations throughout the country, and proving its performance, savings and reliability every day. Factories, banks, railroads, super-highways, chemical processes and hospitals are but a few of the applications for saving money and time of personnel.

Du Mont Industrial Television affords complete versatility for expansion or modification at any time. The equipment is sold, installed and serviced by local, competent, factory-trained contractors in all major market areas. Chances are Du Mont Industrial Television can do exactly what you want in your business or endeavor. Get all the details and decide.

Surveillance in industry . . . Du Mont Industrial Television permits a single, responsible operator to oversee huge 400' roller hearth furnace.



FOR THE MILITARY...

Du Mont Military Electronic Operations specializes in televison systems to meet military needs. Miniaturized and ruggedized systems employing image orthicons, vidicons, and dissectors are being designed or produced for applications from underwater to space. Typical Du Mont systems are capable of operation under starlight conditions or for providing extremely high resolution (8000 lines).

Du Mont Military Electronics offers the capabilities of five systems laboratory groups, all integrated for concept, design and development of surveillance systems. Precise and skilled production facilities assure delivery of approved equipment on schedule.

Inquiries are invited...

Allen B. Du Mont Laboratories, Inc. Dept. BPR-2
750 Bloomfield Ave., Clifton, N. J.

Send me complete information on Du Mont Industrial Television

Name________________Title________

Company________________

Address________________

DUMONT®

precision electronics is our business

ELECTRONIC TUBES/INDUSTRIAL TV/MILITARY ELECTRONICS/MOBILE COMMUNICATIONS/SCIENTIFIC INSTRUMENTS/AUTOMOTIVE TEST EQUIPMENT

Engineers interested in employment opportunities at Du Mont—contact Industrial Relation Department

Allen B. Du Mont

ALLEN B. DU MONT LABORATORIES, INC., CLIFTON, N.J., U.S.A. DEPT. BPR-2

INTERNATIONAL DIVISION • 515 MADISON AVENUE, NEW YORK 22, N. Y. • CABLES: ALBEEDU, NEW YORK

SWEDISH PLANT turning out cash registers is now controlled by Litton Industries, which will import many of the machines.

SVENSKA FACTORY, located in Stockholm suburb, employs 1,500 workers. Even before it was acquired by Litton, Svenska sold about 40% of its output in U.S. market.

Americans

Litton Industries is one of many companies now importing components, finished goods from overseas affiliates.

In mid-November, Litton Industries, Inc.—West Coast electronics and office machine company—went far afield to Sweden to buy control of Svenska Dataregister AB. Litton's main goal: to sell Svenska's Sweda cash registers through the 325 U.S. outlets of Monroe Calculating Machine (pictures), another Litton subsidiary.

Two weeks ago, Hoover Ball & Bearing Co., Inc.—auto supplier headquartered in Ann Arbor, Mich.—opened a special warehouse and subassembly plant in New Jersey. Hoover's aim: to process foreign components imported from its recently acquired Japanese licensee and from two other companies in Italy and Britain.

• Sales Booster—These moves point up

SHIPMENT of Sweda cash registers, manufactured by Svenska Data-register, is packaged and labeled for delivery to U. S. cities.

CLOTHING STORE in New York is among buyers of Sweda registers. Svenska will sell through both its own and Litton outlets.

Step Up Foreign "Sourcing"

a little-publicized but growing trend in foreign operations of U. S. companies—the purchase or production overseas of finished goods and components for export back to the U. S. For most companies, it's a new angle for boosting sales.

Western Europe and Japan are the two key places where U. S.-affiliated plants are feeding products and parts to the U. S. Burroughs for years has been exporting calculators to the market here from its Scottish plant; now it's making ready to ship 10-key adding machines from a new plant in northwest France. Argus Cameras, subsidiary of Sylvania, has been importing light meters and folding flash guns—the latter from Japan.

To a smaller extent, Latin America is getting into the act. Mexican subsidiaries of Motorola, Majestic, and Lenkurt Electric ship condensers, aerials, and small radios to the U. S. Down in Brazil, Sao Paulo's booming auto industry is talking exports. Willys, for instance, may ship Renault Dauphines—now produced in its plant—to the U. S.

• **Familiar Strategy**—There's no secret why U. S. industry is doing this. It's basically an answer to increased competition from foreign imports. The theory—certainly not a new one—is: If you can't beat 'em, join 'em. Foreign imports have hurt some industries, or even product lines within an industry, more than others. But you get an idea of the trouble from last year's import figure—a total $15-billion, up roughly $2-billion from 1958.

Still, other factors besides foreign competition are playing a role. By importing from foreign plants, companies can fill out product lines. They also can introduce new products more quickly. And, then, the high-quality craftsmanship in some foreign products is a lure to companies considering imports.

Foreign-trade experts in the Commerce Dept. expect the trend to grow. As one sign that the trend has caught on, businessmen now refer to imports from foreign plants as "sourcing"—a term that until recently referred to company purchases from a domestic supplier.

So far, the dollar value of these imports by U. S. manufacturers isn't startling—maybe $500-million at the most. (No accurate figures are available, though Commerce is surveying the trend.) Of that amount, Detroit's imports from West European plants make up the largest portion—around $205-million.

• **Added Squeeze**—But the trend, if it continues at its present pace, could become an important factor in our whole trade picture. For it comes at a time when Washington is worried over the deficit in our balance of payments. The deficit stems primarily from military and economic aid programs. But the continuing rise in imports, coupled with the leveling of exports, adds to the squeeze on the U. S. payments bal-

ARCHIBALD DOUGLAS heads Svenska Data-register. Company is making plans to move into electronic computer field.

ance. If that's a serious problem, imports by U. S. manufacturers won't help solve it.

I. The Advantages

From industry's viewpoint, imports from U. S.-affiliated foreign plants make a lot of sense. That's especially true when you see how the foreign operations of most large U. S. companies have changed since the war.

Right after the war, most companies sold abroad through exports. Then, in the past five years, they have raced to build or buy foreign plants to exploit burgeoning foreign markets. A survey last year by the McGraw-Hill Economics Dept. showed that companies expect sales by overseas subsidiaries to expand far faster in the next decade than sales through exports.

The latest stage in this shift is for companies to take a "one-world view" of markets. The new approach adds up to this: Produce wherever the cost factors are most advantageous, sell wherever you can. Thus, a West German plant may serve Germany, or on a regional scale the six-nation Common Market. But that same plant could also serve the U. S. market—at least, in some product lines. A good example is the Big Three's exports of English Fords, GM Opels, and other European-made cars to the U. S.

• **Specific Reasons**—Still, as you look at case after case, you find specific reasons behind moves to import:

• Bendix's French plant has been making small refrigerators for the French market. It thinks these would be a good bet for trailers, boats, and bungalows. So, rather than tool up here, it is planning to import from France.

• Baldwin-Lima-Hamilton recently has imported parts for hydro equipment—"with great reluctance." "We can't compete with foreign companies bidding to Uncle Sam if we use only American labor," says a top BLH executive. He adds that the company's domestic competitors are going to have to do this soon. BLH may even build or buy a European plant later on.

• Cenco Instruments Corp. opened a Netherlands plant last October partly to ship to the U. S. Reason: price competition from foreign companies. On the other hand, Soiltest, Inc.—a Cenco subsidiary—is selling imported construction machinery under the Soiltest name for a different reason. It wants to have a "complete line of engineering testing equipment."

• One U. S. pharmaceutical company with a British plant has a new twist on sourcing. It initially processes an antibiotic in the U. S., then ships it to Britain for final processing and packaging, and finally exports back to the U. S. Under British tariff regulations, the company gets a refund on the duty paid on the imported, semi-processed materials. Half of Britain's 24 major pharmaceutical companies are U. S. subsidiaries, so you can bet that some of the other U. S. companies are doing the same thing.

II. Changing Pattern

Historically, in terms of products, the trend toward sourcing has run somewhat in reverse. Companies now are looking overseas to have components made to order. But in earlier days, they imported complete products—foreign-designed and foreign-made.

• **Imported Products**—That was the way Detroit's Big Three first met foreign-car competition. General Motors began shipping British Vauxhalls and German Opels. Ford sent its British and German cars, too. Chrysler entered the race by buying a 25% share of France's Simca, as a prelude to importing Simca cars.

Other U. S. companies, to a large extent, introduced products here that were originally designed for foreign markets. Remington Rand brought in French-made Bull office machines (BW—Oct.10'59,p119). International Harvester last year started shipping a small diesel tractor—developed for the British market—to the U. S.

More recently, U. S. companies have had foreign products designed specifically for the American market. For instance, Nash engineers in 1954 designed the tiny Metropolitan for production by British Motor's Austin and sale in the U. S. Then, last year, Rockford Scooter Co. began importing a scooter partly designed here but made by Japan's Mitsubishi Heavy Industries.

• **The New Trend**—Now, the big thing is to build or buy components overseas. Cummins Engine's Scottish plant exports 10% of its output of castings and forgings (including pistons, crankshafts, bearings) to the U. S. Arnold Schwinn & Co., hit by competition from foreign bicycles, now goes abroad to buy brakes, front hubs, pedals, spokes, some tires, three-speed hubs, and hand brakes. About all it does here is make the frames and assemble the final product. The company notes that GM has stopped making "New Departure" coaster brakes because of foreign competition. "If GM quits," says Schwinn's W. F. Stoeffhaas, "you know it's pretty rough."

The whole semi-conductor field, of course, goes in for sourcing. Motorola buys transistors and cases from several companies in Japan that manufacture to its specifications, then assembles at its Quincy (Mass.) plant. International Rectifier this spring will begin importing silicon rectifiers and diodes from its 40%-owned Japanese affiliate. In Italy, Raytheon is using its licensee, ELSI, for producing semi-conductors for the U. S. market. General Electric and Sylvania, through their Italian affiliates or licensees, may follow suit.

Few U. S. companies want to talk openly about this kind of business. Says one Tokyo observer: "Companies fear competition from other American companies that might set up the same type of arrangement. And they also fear retaliation from labor unions—if it's known they are importing foreign parts."

III. Competitive Necessity

For some companies, sourcing has been almost the only means for survival. That's largely true of Hamilton Watch.

In 1952, it started importing Swiss movements. Then, in April last year, after years of petitioning the Federation of Swiss Watchmakers, the company got permission to buy A. Huguenin & Fils, S. A. That way, Hamilton could profit directly at the point of manufacturing in Switzerland.

Now 47% of the watches the company sells are imports (though a smaller percentage in dollar volume). As an additional hedge against foreign competition, Hamilton has an agreement to market a Japanese-made watch in the U. S. Explaining the competition his company has faced, Arthur B. Sinkler, president, bluntly says: "I don't see how it can be otherwise, with the difference in labor costs so marked."

Yet, in the office machine industry, competition from lower foreign costs is only one factor. Costs, of course, were the reason that Rem Rand decided to set up its huge typewriter factory in Scotland.

The plant now sends "substantial shipments" to the U. S. Even so, foreign producers—from the Swedes to Italians—have also offered products here not already handled by some U. S. companies. In some cases, the design and quality of the foreign products outshine similar U. S. products. For that reason, U. S. companies have jumped to importing.

• **Litton's Deal**—Take the case of Litton Industries' purchase of Svenska. In 1954, Monroe Calculating began selling German-made Olympia adding machines here—under the Monroe label. Monroe was primarily an office machine producer and seller. When it became a subsidiary of Litton two years ago, Monroe pushed development of its "Distributape" system for recording retail sales. From that starting point, Monroe wanted to enter the cash register field in a big way.

A Litton-Monroe team scoured Western Europe for a company to buy. Soon, it settled on Svenska—for several reasons. Though National Cash Register dominated some 85% of the world market, Svenska ranked as its nearest competitor. The Swedish company already was selling about 40% of its $20-million volume in the U. S. market. It was planning to double production, also was experimenting with electronic computers.

As another advantage, the company was in a good position to sell within the seven-nation European Free Trade Assn. (which includes Britain). That jibed nicely with the fact that Monroe already owned a Dutch plant for producing business machines inside the rival Common Market.

At first, Monroe considered a deal simply to distribute Svenska machines. But Monroe would have no say in increasing output—if the U. S. market should justify an increase. So it bought a majority control from Svenska's private owners (who included the Wallenberg banking family). Now Monroe can count on Svenska to help boost the company's present annual sales of $50-million. Says Fred R. Sullivan, president: "Some of our American competitors would prefer our kind of competition."

• **Machine Tool Fears**—If sourcing is an accepted practice in the office machine industry, it is practically a scare word in the machine tool industry. Nearly 70 companies, from E. W. Bliss Co. to Warner & Swasey Co., have foreign subsidiaries, affiliates, or licensees. Yet—except in isolated cases—they shy away from importing.

Says one industry expert: "They're scared because it would stir a hornet's nest among employees. They'll postpone the evil day as long as they can. But—if forced by competition—the big companies will do it."

Big Machinery Sale to Russia

Textile equipment order from U. S. industrial group is biggest private transaction with the Soviet Union since World War II. It could mean more East-West trade.

A. U. S. group of 38 companies known as Intertex International, Inc., this week sold $21.4-million worth of textile machinery to Soviet Russia—the first major U. S. private sale to Russia since World War II. The equipment will go into a new plant in Kalinin, near Moscow.

Among the 38 companies, Crompton & Knowles Corp. and Whitin Machine Works get the largest shares of the contract, about $4-million each.

Intertex has done business before with Moscow, with sales of about $6-million worth of machinery in the last 18 months. However, this transaction marks a real breach in the trade wall that has risen between the U. S. and Russia during the cold war. Although the barrier weakened a little last year, U. S. exports to Russia in the first eight months amounted to a mere $4-million. The textile equipment sale alone comes to five times that figure.

• **Drumming Up Business**—The Russians have been talking up Russian-U. S. trade since last January, when Soviet First Deputy Premier Anastas Mikoyan toured the nation, sounding out U. S. businessmen. The drive continued with another First Deputy Premier, Frol Kozlov, on a tour in July. It got another push from Premier Nikita Khrushchev last fall.

So far, most U. S. businessmen have been reluctant to do business with the Kremlin. Washington has also been standoffish. The government forbids the sale of certain "strategic" goods to the Soviet bloc and prohibits long-term private credits to any country that has defaulted on payment of obligations to the U. S. This applies to Russia, since it hasn't yet settled its World War II Lend-Lease bill.

The Soviets apparently were quite anxious to buy this textile equipment from a U. S. company as a step in prying loose more purchases. They awarded the contract to Intertex despite strong enticements from a British group headed by Platt Bros., which offered the Russians up to five years' credit and a price 30% lower than the U. S. group's.

Being prevented, by law, from granting long-term credit, the U. S. group is supposed to be paid in dollars within 90 days of receipt of shipping documents in Moscow. Deliveries are scheduled to begin in the last half of 1960 and to be completed during the first quarter of 1961.

• **Eager Americans**—The American group also appears to have been eager to make the sale, seeing it as a precursor to others. The negotiators put in several months of parleys with Soviet representatives before settling the contract (BW—Nov.21'59,p152).

In the end, Intertex and the Russians agreed to a price $7-million less than the company's asking price. An Intertex spokesman says this was caused by "adjustments in the plant design." Sidney H. Scheuer, a New York textile broker who has long advocated more U. S.-Russian trade, engineered the transaction.

• **Official View**—Washington's reaction to the sale has been somewhat ho-hum. The Commerce Dept.'s Office of Export Supply, which polices U. S. exports to Soviet Russia, routinely approved the move, ruling that the equipment would not add to Russia's war-making potential.

The Commerce Dept. doesn't view approval of the Intertex sale as a change in policy. For some time now, it has passed export licenses on textile machinery, products, and plant blueprints. Export Supply Chief John Borton says, "My trade policy instructions have not been changed by one comma."

• **Big Plant**—The plant in which Intertex equipment will be installed is one of the largest textile mills built anywhere in recent years. There are larger ones in the U. S., but they are older. The trend here recently has been toward smaller, more specialized mills.

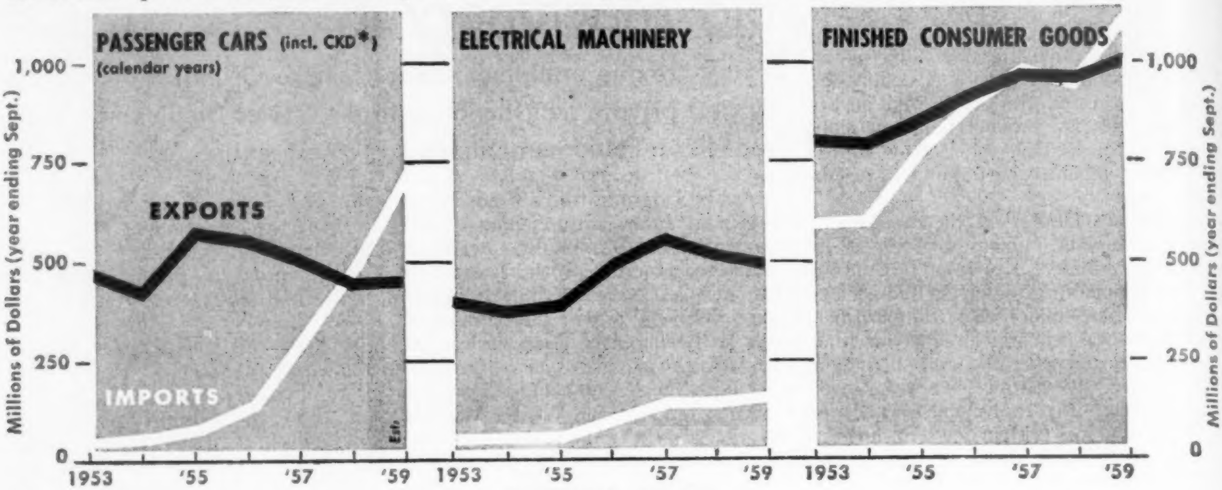
The new Russian plant will cost $30-million in all, will have 50,000 spindles, and will produce wool, cotton, and synthetic cloth. It will fit into the current Seven Year Plan (1958-1965), which calls for an increase in consumer goods.

• **U. S. Advantage**—Intertex says one reason it got the contract is that it can deliver and set up a plant in half the time it would have taken its British competitors.

Many U. S. industries, notably producers of chemical equipment, will not sell to the Soviets because Russia does not observe international patent rights, hence can copy designs without paying royalties.

Scheuer scoffs at this charge as "old hat." He says the Soviets want to buy U. S. equipment for use for industrialization and don't have the capacity to copy everything this country sends over. **END**

In these products, U.S. exports are sluggish, while imports climb . . .



Data: Dept. of Commerce; Automobile Manufacturers Assn.; *completely knocked down

Hard Sell—and Innovation—Are Ke

West Europe is becoming a mass consumer market, but its own industries will supply much of the demand. That's why trade experts believe U. S. companies will have to create new products if we are to boost our sales abroad.

The happy, postwar days for exports —when the U.S. dominated free-world markets—are over. And U.S. industry, hoping for an export pickup this year, knows it.

Statistics for the past five years are one reason for worries. U.S. commercial exports (excluding military goods) reached $14.3-billion in 1954. Scan the succeeding years, and you see exports soaring to a record $19.5-billion in 1957, then slumping to an estimated $16.2-billion last year.

You could write off 1957 as a freak year—what with post-Suez oil and coal shipments and an investment boom in Western Europe. But last year's $16.2-billion is even well below 1956's $17.3-billion.

• **Culprits**—The main troublemakers aren't hard to find. Take just three:

• Western Europe, a key export market, is off its back and running hard industrially. It now makes lots of things we used to sell there.

• Foreign producers, in some lines such as electrical machinery, are undercutting U.S. export prices. Our costs, reflecting our high living standard, simply are higher generally than those abroad.

• Most large U.S. companies are playing both sides—with sales from their foreign subsidiaries competing with their own exports. These foreign sales total over $30-billion yearly.

For that reason alone, most U.S. companies hustling overseas are not complaining loudly about the export slump. They view sales abroad—through either exports or sales from foreign plants—as a total operation. In fact, their rush to build plants, from Brazil to West Germany to Japan, is a sign that they are adjusting to the new world trade picture (page 66).

Washington officials, though, aren't so complacent. The leveling of exports and rise in imports largely account for our balance of payments problem. Any sharply increased deficit in the payments balance could seriously hurt the U.S. economy. Thus, the Administra-

THE SHAPE OF '60

tion now is considering a program for guaranteeing short-term credits to help exporters. Several West European countries already have government-backed "insurance" programs to encourage exports.

• **Resignation**—While U.S. industry certainly isn't gloomy over exports, some companies have an almost resigned look. The charts tell why (above). The auto industry, for one, sees little chance of recovering its formerly strong position in export markets. Too many companies abroad (including Detroit's own subsidiaries) are turning out cars and trucks.

But the charts also show bright signs. Agricultural commodities, such as oilseeds, have a good future, particularly in underdeveloped countries starved for food. Then, industrial chemicals—highly researched, fast-changing products that American industry excels in making—continue to be an export leader.

• **Emphasis on Innovation**—In fact, Commerce Dept. officials and even businessmen, in casual conversation, are talking up "innovational" exports as the future trend for exports. If U.S. industry can't always produce quality at the same price as foreign industry, it can create new tricks and truly revolutionary designs for products. Foreign companies and consumers readily admit this.

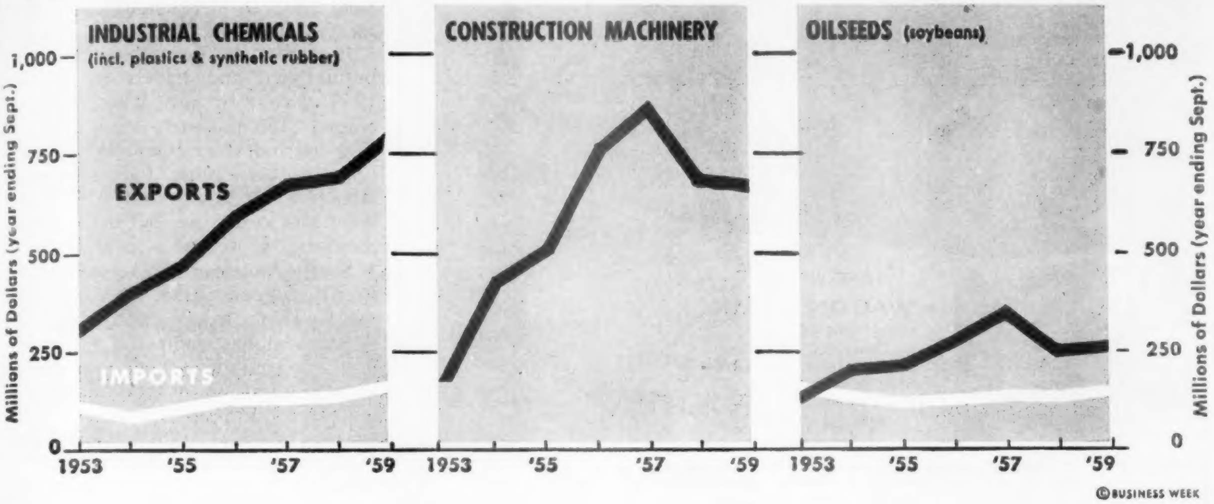
Besides that, industry is beginning to recognize that you need to sell hard overseas, as well as at home. There were times when foreign customers, given dollars, would take anything they could get. Now they have a choice—and, in some cases, enough dollars to shop around. U.S. exporters know this.

Thus, on balance, exporters may have hope for boosting sales this year and next—especially since Western Europe is heading into a new boom. But in the pull ahead they will face a new pattern of doing business that is more unstable and dynamic than during days past.

I. Strong Demand

There's no doubt that the demand side for exports looks bright. That's assuming, of course, that no major war

...But in these lines the U.S. is holding, or gaining, a strong trading advantage



Key to U.S. Export Hopes

or depression strikes. The encouraging sign is the record growth of foreign economics—far faster, in most countries, than ours.

Western Europe is a prime example. It probably has more room for increasing industrial capacity than we do. And gradual integration of the countries—partly through the Common Market and European Free Trade Assn.—should help spur growth.

• **Mass Markets**—What's happening is the development of a U.S.-style mass consumer market. Economists project a steep rise in Europe's per capita income over the coming years. That will upgrade consumption habits.

Most Europeans probably will continue to buy small European cars, but some may prefer American models. That's because ours are generally cheaper than European cars of comparable size and comfort. Similarly, the rise in living standards in Europe should stir demand for fairly expensive household appliances.

• **Exchange Shortage**—Compared to Europe, demand in the underdeveloped countries will show up more slowly. The demand—in India, for instance—will be enormous. But U.S. exports will hit the old roadblock of chronic foreign-exchange shortages. Beyond that, the terms of trade for primary products—minerals and agricultural commodities—are likely to run against these countries.

But the outlook is far from bleak. The advanced countries will help offset exchange shortages through economic aid and private capital—though that depends somewhat on how much Western Europe and Japan share the burden. In addition, the underdeveloped countries will tend to ration imports of consumer goods to maintain much-needed purchases of capital goods and foodstuffs.

II. Shifting Pattern

But even if foreign countries want—and need—our goods, the export pattern will shift. What's ahead—as trade experts and businessmen see it—is heavier reliance on "innovational" exports. This is the field, where the U.S. shines.

Look how the export pattern already has changed over the past 50 years. At the turn of the century, primary metals led our exports. In the 1920s, automobiles and related products were out in front. By the late 1930s, exports of industrial machinery were forging ahead.

• **Luxury Items**—The trend toward capital-goods exports continued immediately after the war. But recently chemical products, such as plastics, have scored dramatic gains. And push-button consumer durables have begun to catch on in the fast-spending West European and Japanese markets.

In Britain, for instance, U.S. appliances have a limited but definite place. Says a buyer for a leading London department store: "Where there's a direct British competitor for an American appliance, the British item may not cost any less, but gives better value. It's built to last. British manufacturers—and the public—haven't yet learned about planned obsolescence. But there are many American appliances—dishwashers, for instance—with gadgetry that people are willing to pay for because they're not produced here."

• **A Jump Ahead**—Thus, in the future, both Britain and West European countries will supply most of their mass markets from domestic production. But some demand will exist—and possibly expand—for types of consumer goods from the U.S. that may be mass-produced here, but not in Europe.

That means, however, keeping one jump ahead of foreign producers. For—if European prosperity continues to increase—foreign companies will be upgrading and changing products, too. U.S. companies will have to keep pace with quick-changing export styles and designs. And they also will have to beef up sales and credit facilities.

• **Increasing Competition**—Even doing that, exporters will meet increasing competition in their own backyard—from the foreign subsidiaries of U.S. companies. A large number of chemical companies are moving fast into production overseas of plastics and synthetics. In the business-machine field, IBM—for one—serves most overseas markets from foreign subsidiaries.

All this is hurting exporters today. But, as Europe comes to an American-style economy, its wages are rising. That in the long run may help equalize industrial costs. And costs are still a key problem for exporters in trying to match European prices.

III. Traditional Exports

Still, our traditional exports—from machinery to foodstuffs—won't fall flat in coming years. The U.S. will continue to supply these to Europe. But as European companies expand more into capital goods, our share will decline.

Even in Japan—now competing to sell machinery in world markets—U.S. capital goods are expected to play a big role. Japan's imports from the U.S.

last year reached \$1.2-billion—up 4% from 1958. And machinery accounted for about 25%.

In India, the government has told businessmen and traders to use our 1958 Export-Import Bank loan of around \$150-million to bring in equipment for industrial expansion. Though resenting the decree, Indian businessmen now are saying that U.S. equipment may cost more, but deliveries are prompt.

• **South American Markets**—Similarly, Brazil is a good market for U.S. equipment. That's largely because the Rio government has clamped a lid on imports of consumer goods, and forced through a program of local manufacturing. But European companies are beginning to offer "custom-tailored" machinery at below U.S. prices.

Then, in Venezuela, U.S. capital goods may show some increase this year. As in Brazil, the country is cutting back consumer-goods imports. It's even planning a complete shutoff of cigarette imports—and until recently Venezuela was the largest single market overseas for American cigarettes. But as local industry expands, U.S. machinery may be in greater demand.

• **Agricultural Reversal?**—The brightest sign for exports is the expected boom in agricultural exports. Any spurt in "innovational" exports would be simply an extension of the present trend. But a boost in farm exports would amount to a sharp reversal of a long, historical trend. For farm commodities in the 19th Century held a 3-to-1 lead over other exports. Today, that ratio is just the opposite—with raw materials and industrial goods dominating exports.

Here's the way Washington trade experts now view farm exports: The population explosion in underdeveloped countries will stir tremendous new demands for food. Add in the fact that these countries may put more proportionate emphasis on new industry—particularly for export. The countries may well see a cost advantage from low wages, thus encourage new industry and new exports—trading more and more of these for food purchases.

• **Limiting Factor**—Of course, the picture isn't that simple. How much food the countries can afford hinges on the willingness of the U.S. and other advanced countries to buy products of low-wage industries. But in any case our government financing of food exports will certainly help.

Apart from any question of price supports, the U.S.—in Washington's view—has more comparative advantages in producing food than it does in manufacturing. The U.S. farmer is probably the world's most efficient. That's why trade experts view farm exports so optimistically. END

In Business Abroad

• • •

U. S. Group of International Chamber Elects Ralph T. Reed Its Chairman

The U. S. Council of the International Chamber of Commerce has elected Ralph T. Reed as chairman. He is president of the American Express Co.

Reed's "platform" calls for reducing discriminations against U. S. exports, expanding trade with regional economic groups, encouraging private investment in underdeveloped areas, building better trade relations with Soviet-bloc countries, and improving facilities and reducing government restrictions on international travel.

As head of the U. S. Council, Reed will serve as a vice-chairman of the International Chamber, which is recognized as a spokesman for business interests on international trade, investment, and finance.

• • •

Retailers Gloat and Postmen Groan As Japanese Bonuses Top $1-Billion

Japan's current prosperity has Tokyo retailers gleefully clicking their chopsticks this week.

Small bonuses at yearend are traditional in Japan but this year they totaled an estimated $1.1-billion—and most of this floated into department stores. **One day last month, some 2-million people crowded into Tokyo's 17 major department stores to drop $1-million in the cash registers of each.**

Postmen, however, are almost as unhappy as the merchants are happy. The Central Post Office in Tokyo had more than 500 carloads of gift parcels piled up, well over 20% more than the same time last year.

• • •

$56.5-Million Suez Canal Loan O.K.'d By World Bank Despite Israeli Protest

The rapprochement between the United Arab Republic and the Western powers became more firm last week with the granting of a $56.5-million World Bank loan for improvements in the Suez Canal (BW—Nov.28'59, p107).

The Bank's action drew a good bit of protest from Israel and its supporters in the West. **They argued that the loan should not have been approved so long as the UAR forbids the passage of Israeli ships or goods through the canal. The UAR claims it is within its rights as a state of war between it and Israel still exists.**

Israel tried to delay the loan by sending goods through the waterway on Greek and Danish ships, which the UAR stopped. In the U. S., more than 60 congressmen objected to the loan. British opinion was split.

The Bank, however, reasoned that as an international economic institution, it should put economic above political considerations. In this instance, it deemed the improvements to the Suez Canal a sound investment of general benefit.

• • •

Kearns Says Poor Salesmanship Is Holding Back U. S. Exports

Henry Kearns, Assistant Secretary of Commerce for International Affairs, says shoddy U. S. salesmanship abroad, not high prices, is holding back this country's exports (page 70). He has just finished several months of globe-trotting to discover what ails U. S. trade and investment overseas.

High prices, he reports, are not so much a drawback to buying U. S. products as generally believed. **Comments he heard from foreign businessmen and government officials concentrated on lack of competitive short- and medium-term credit, antiquated distribution facilities, and failure of U. S. companies to tailor exports to specific foreign markets.**

Kearns noted, for example, that in India, a steel mill foreman said he bought a European welding machine at a price lower than that of a U. S. machine. But the machine's capacity was inadequate for his operation, and he would have bought an American product "if we had known it would do the job. We would have paid the higher price for it and paid for the difference in a few months with our operating savings."

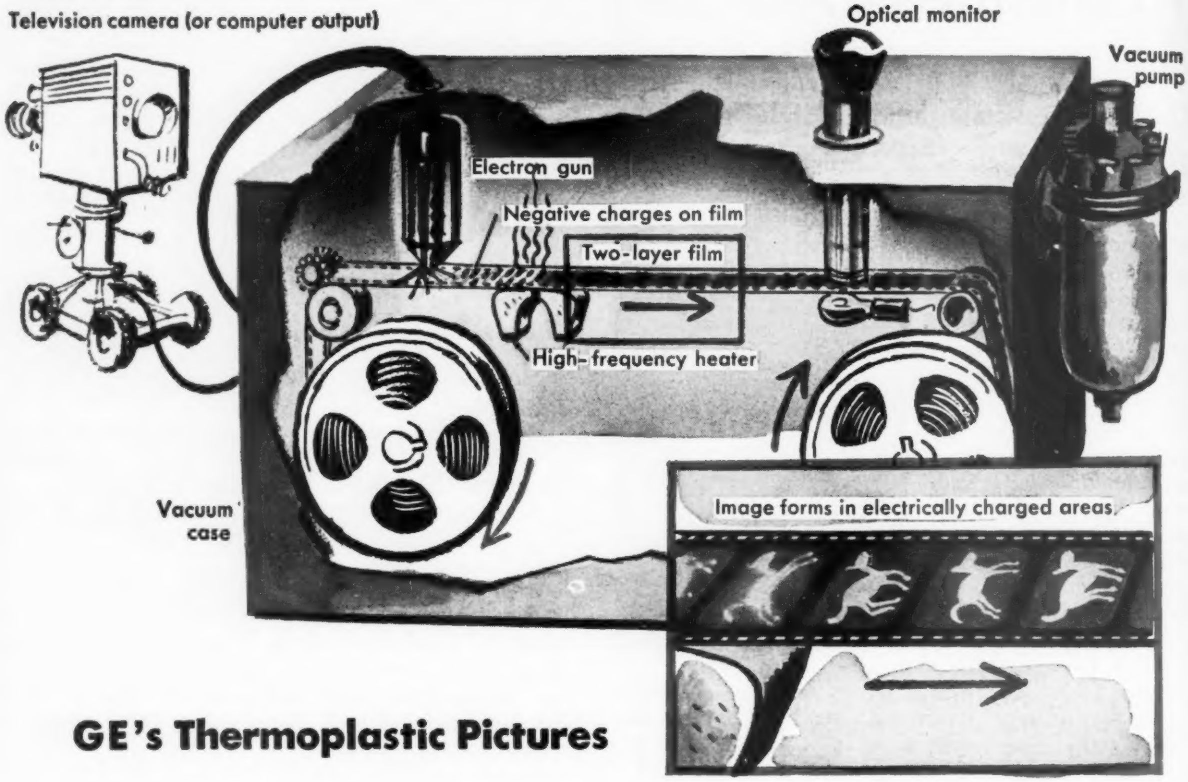
Kearns says the government must take the lead in increasing U. S. exports. He is expected to recommend that his department encourage export associations, call on commercial banks to extend more credit, and increase information service to traders.

• • •

Business Abroad Briefs

The Indian government is negotiating with Lockheed Aircraft International, Inc., for the establishment of **an airplane factory in India.** The proposed plant will produce small transport planes to replace the over-age Dakota fleet of Indian Airlines Corp. It will be owned and operated by the Indians, with Lockheed furnishing technical assistance. Details of financing have not been disclosed.

Britain and Soviet Russia last week **agreed to exchange trade fairs in 1961.** The British will display electrical and electronic equipment, machine tools, and chemicals in Moscow. The Russians will reciprocate in London with both capital and consumer goods, models of luniks and sputniks, and "caviar for everybody," according to a Soviet spokesman.



GE's Thermoplastic Pictures

Recorder Gives Instant Playback

Motion pictures, television, and data processing are all about to get a new electronic technique of recording and filming. Next week, General Electric Co. will unveil working models of a new device (suggested by the diagram) that the company calls a thermoplastic recorder.

GE claims that it has two big advantages:

- There is no delay between recording and playback. The recorded material is available instantly and without processing, just as in magnetic tape recorders and video tape.
- The recorded material is visible. Pictures or data can be examined with simple viewing devices. Thus, motion pictures recorded on the GE device can be edited visually, which is much simpler than editing video tape on an expensive tape machine.

• **Cat Out of Bag**—GE officials refuse to talk about the new recorder until the scheduled release on Jan. 12. But Dr. W. E. Glenn, of the General Electric Research Laboratory, jumped the gun a bit by publishing a paper on the system in the Journal of Applied Physics. From his data, and the comments of TV and motion picture engineers, it appears that GE has pulled off a major development.

• **The Method**—The thermoplastic recorder combines electronics and optics to produce a visible image on a double-layered film that is not unlike motion picture film. However, the old film's photosensitive emulsion is replaced on the GE film by a layer of transparent thermoplastic on its sensitive side. And the film is exposed, not to light, but to a stream of electrons from an electron gun similar to that in a TV tube.

Since the film will not conduct electricity, the electrons sprayed on its surface stay put, and varying charges can be built up on the surface by scanning the film, just as the electron beam in a TV tube scans the phosphorescent face of the picture tube. Immediately after the charge is laid on, the film is heated by a radio frequency device that softens the thermoplastic layer.

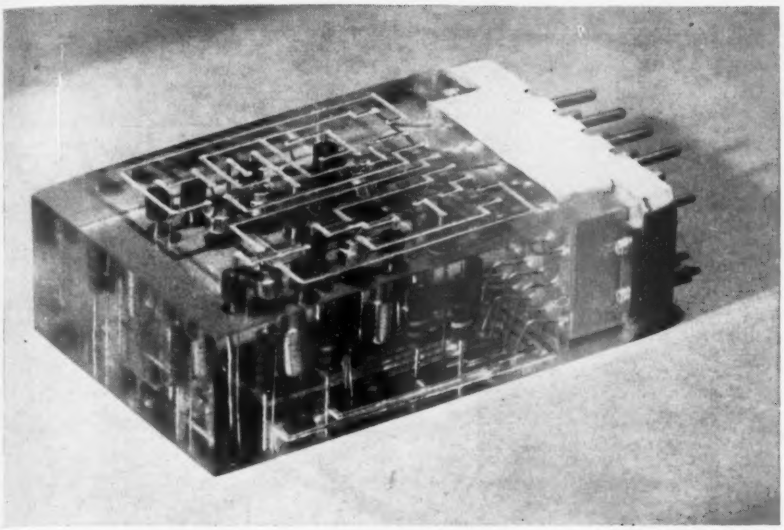
The electrons piled on the surface are attracted to the base layer under the thermoplastic, and they distort the surface of the film in proportion to their density. The result is a sort of bas relief image of the film; when the film cools, the image is permanent.

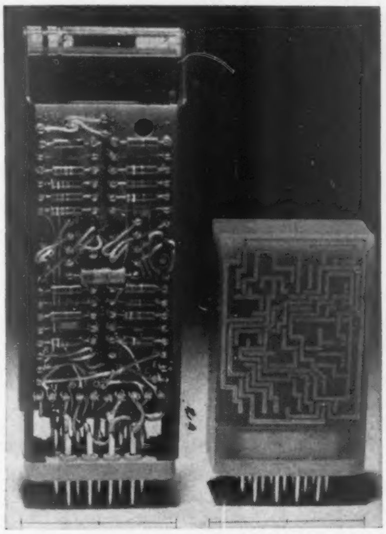
With special filters or auxiliary equipment, it makes a passable picture when projected on a screen. With more sophisticated masking and projection equipment, the tape can even produce colors by taking advantage of the principal of diffraction, which breaks light into its spectral colors.

The recorder can pack tremendous amounts of data in either digital or continuous signal form on small areas of tape, thanks to its sharp focusing. Digital data can even be recorded in colors to distinguish its source; a tape so recorded might resemble a many-hued checker board.

• **Very High Vacuum**—In the equipment described by Dr. Glenn, all recording must be done inside a vacuum chamber pulled to an almost perfect vacuum of O.1 micron. That would seem to mean that a gas diffusion pump would be needed, and that plenty of time would have to be taken to outgas the tape and the box. It will be learned next week whether GE has managed to eliminate some of the vacuum equipment or to reduce its size.

In most other respects, the system seems economical and practical. The tape, like video tape, can be erased and used over again. END





Lincoln Lab Builds Electronic Package Backwards

A new type of multiple-component electronic package developed at Massachusetts Institute of Technology's Lincoln Laboratory may simplify production of many types of subminiature communications and control systems. Lincoln Lab's package uses electroplated wiring and connections, completely eliminates soldering.

The trick is to reverse the usual order of manufacturing electronic circuitry. The components—transistors, resistors, capacitors—are arranged in a three-dimensional pattern, then encased in plastic with their leads sticking through the surfaces.

Milling off the six sides of the plastic block leaves only the ends of the components' leads exposed. Copper-plating the entire unit interconnects all the leads; then the unwanted copper can be etched away, leaving only the proper circuit.

Ordinarily, in printed circuit construction, the circuit board comes first, the components are soldered in, and then the whole assembly is "potted" in plastic, if necessary. The Lincoln Lab's system, on the other hand, prints the circuit on the package of components.

According to E. A. Guditz, a Lincoln Lab staffer who described the process in an article in Electronics, a McGraw-Hill publication, the elimination of soldering in microminiature packages reduces the chance of connection failure, gives lower resistance connections, and avoids exposing temperature-sensitive devices such as transistors and diodes to high soldering temperatures. And, where high temperatures are needed, the plated connections can stand a lot more heat than low melting point solders. For very complex circuits, it is relatively simple to plate on layers of wiring and connections. All that's needed is a plastic coating over each plated wiring system, then the next wiring can be plated on. A tapered hole is drilled through the plastic coating before the second plating operation to provide interconnecting circuits.

Vest Pocket Oxygen Tank for Heart Patients

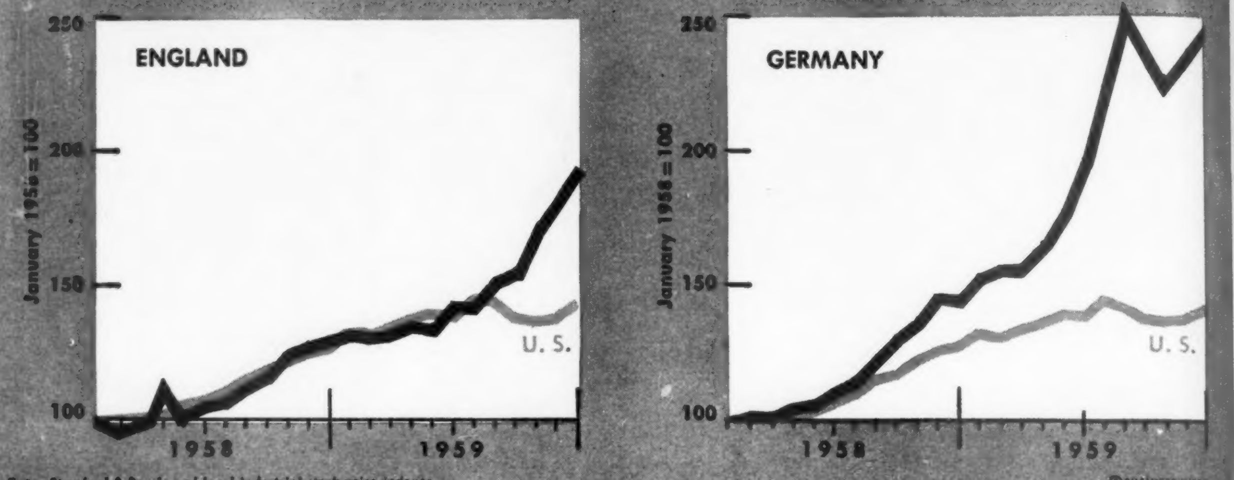
A pocket oxygen dispenser (picture), about the size of one of the metal tubes in which cigars are sometimes packed, is designed to help heart patients and to provide protection against shock, smoke, and oxygen-failure in planes. (Besides that, while there's no medical proof that it will cure a hangover some doctors believe that alcohol ties up enough of the oxygen in the system to create a minor but noticeable shortage, and the dispenser probably would have a sobering effect on a person who feels the effects of a couple of drinks.)

The Oxy-Hale was invented by Dr. Alvan L. Barach, professor of clinical medicine at Columbia University, to provide a ready source of oxygen to relieve cardiac pain—initially caused by lack of oxygen—and to help fend off the effects of a coronary attack before the patient gets to a hospital. It also makes it easier for heart patients to take normal exercise, and in some cases its regular use may reduce the incidence of anginal attacks, according to Barach. Other possible applications include the easing of bronchial asthma, croup, and oxygen shortage caused by strenuous exertion, such as mountain climbing, or by high-altitude flights.

The Oxy-Hale is an aluminum tube containing a 2½-in. cylinder that compresses three liters of oxygen to 5,000 psi.—2½ times the pressure of hospital oxygen cylinders. One cylinder provides up to two minutes of oxygen, which is mixed with air through a device that allows the user to adjust the concentration of oxygen from 26% to 90%. The cylinder can be replaced in eight seconds. The user inserts the tube directly into his mouth.

Manufacturer: Controlled Pressure, Inc., Erie, Pa. Price: $12.95 for the tube; $4 for 10 cylinders.

1958-1959: A great bull market around



Data: Standard & Poor's and local industrial stock price indexes.

Stock Climb Spans Globe—But It's

The cult of equities, which has become a dominant force in the U.S. stock market, has spread around the world. This is clearly evident from the charts above and on the following pages, which show that share prices have been advancing, almost without interruption, in every major foreign stock market.

Moreover, BUSINESS WEEK's annual survey of the world's stock markets indicates that brokers and investors in foreign financial centers expect the rising price trend to continue through most of 1960. In view of the extent to which equity prices have already gone up, however, it is doubtful that stocks will do as well—relatively—in 1960 as they did in 1959.

In their rush to buy shares to hedge inflation, investors—both American and foreign—have bid up stock prices to the point where stock markets are suffering from an inflation of their own. Growing investor consciousness of this market inflation means that despite a rosy economic outlook for 1960 all over the free world, stock prices are likely to move up a lot more slowly than they have to date. There is also the possibility of some sharp sell-offs.

In addition, markets overseas continue to dance to Wall Street's tune—and the current uncertainty in the New York market is bound to be reflected in other markets around the world.

• **Tokyo Break**—A good example of the more cautious attitude toward stocks that's likely to characterize 1960 came in the sharp break two weeks ago on the Tokyo Stock Exchange. In one day, the Japanese industrial stock index—patterned on the popular Dow-Jones average—dropped 32.50 points, or roughly 3.6%.

It was a technical correction, not related to any particular news; but it was the second sharpest drop in postwar Japanese history, exceeded only by the 1953 slump after Stalin's death. A lot of small investors, who had rushed to put year-end bonuses in the market, were burned, and enthusiasm for equities in Japan has cooled considerably since then.

THE SHAPE OF '60

• **General Stability**—But most markets have had no shake-outs lately. On the contrary, brokers say that equities are more stable than they used to be. That's because the public is stepping up its buying in ever-increasing numbers.

Then, too, there has been a worldwide expansion in mutual funds, which is expected to continue into 1960. With funds buying actively, it's hard to see a sharp break in equity prices in any country.

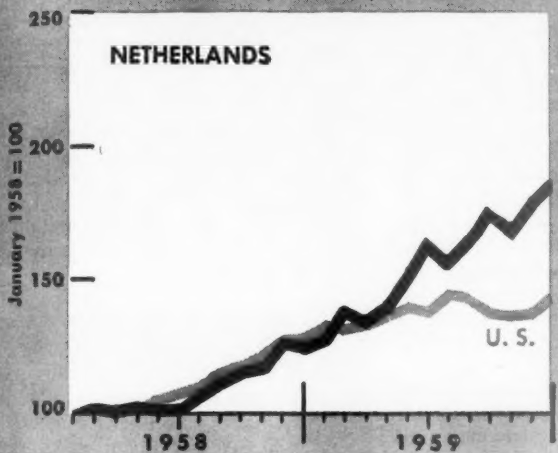
• **Changed Attitudes**—The U.S. public is more equity-minded than any other. But in London and Frankfurt and Paris, where stock buying was once largely a professional affair, a new wave of public interest is now evident. The same holds true on other foreign exchanges. This fundamental change in the public's attitude is bringing about still other changes:

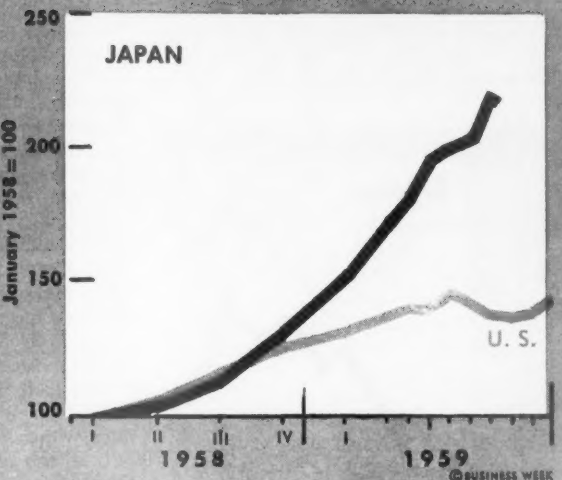
• The U.S. growth stock principle, which puts a priority on capital gains rather than yield, is now commonly accepted. It is particularly strong in London, once considered the prime example of the yield-conscious market; for the first time in history, common stocks are yielding less than long-term government bonds (chart, lower right). The trend is also marked in Germany, where yields on popular "growth" stocks have dropped from a level of 4½% in 1958 to less than 2½% today, solely because of the bidding up of prices.

• The public has been sold on the idea of mutual funds—or unit trusts, as they are generally termed outside the U.S. The demand for mutual fund shares has funneled funds into equities, and in some countries, such as Japan, mutual fund buying actually dominates trading in listed securities.

• Large-scale public interest has put pressure on foreign companies to release more information to shareholders. This in itself is leading to increased investor interest—especially on the part of Americans who, up to now, have been reluctant to purchase foreign

the world





Data: Standard & Poor's and local industrial stock price indexes.

Tiring a Bit

stocks because they knew so little about them.

Because public participation in foreign markets still lags behind the U. S., and because most economists think that the overseas boom has further to go than our own, they look for prices to rise higher on foreign stocks than on most U. S. shares. They expect this prospect to lure many more Americans into foreign markets in the hope of making profits on rising price levels.

• **How They Look**—Here's how the trends shape up market by market:

London: In England, 1959 will be remembered as the year when equities finally came of age. For the first time, the "yield gap" between commons and long-term bonds was closed, and as the chart shows, stock yields have continued to decline while bonds have gone up slightly. London brokers emphasize that this represents a fundamental shift in attitude. The hunt for growth stocks—and capital gains—is on with a vengeance, they say.

This shift is reinforced by the English tax structure. In Britain, dividends are subject to a withholding tax that runs about 40%, while capital gains are entirely tax-free. A capital gains tax was an important plank in the Labor Party platform, and when Labor went down to a thumping defeat last October, the stock market took off on its biggest one-day bull rush in history.

Equities have been winning a new respectability in Britain in the past year. Institutional investors—municipal corporations, trusts, and union pension funds—have all been amending their charters to allow greater investment in common stocks. Even the staid old Church of England is now a major holder of stocks.

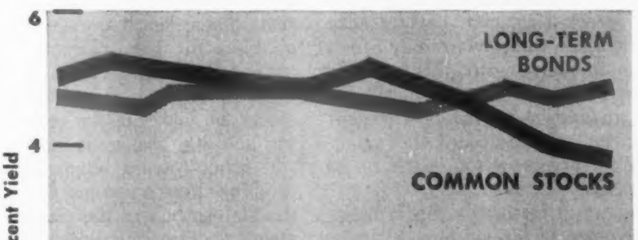
This trend received a big boost last week when the Macmillan government published a white paper outlining proposed changes in trust fund legislation. These will give trust funds wide discretion in buying stocks, and will eventually permit them to put up to 50% of their assets into commons.

U. S. and Continental investors have also been pouring funds into London since the Conservative victory in October. This has been an important spur to the jump in share prices—particularly of British steel stocks, which had been depressed by the Labor Party's threat of nationalization. United Steel, for instance, sold for 41 shillings just before the election, with a dividend yield of 6.1%; today it sells at about 80 shillings, and its yield is down to 3.7%.

This also holds true for the blue-chip industrial stocks in the Financial Times price index. In early 1958, they sold for only a little more than eight times earnings. Today they are selling for 11 times expected 1959 earnings.

This, however, is still well under the Dow-Jones industrials' ratio of about 20 times earnings. Thus, English equities are still relatively cheap compared to U. S. stocks. But there are already some exceptions. British steels and auto stocks command a higher price earnings multiple than their U. S. opposite

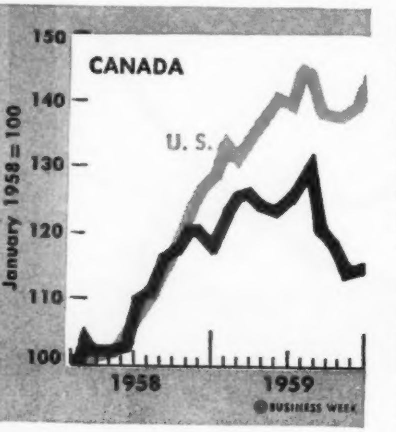
London's new inverse yield gap



Data: Financial Times.

numbers. Heavy demand will probably lead to the upgrading of other price-earnings ratios.

In fact, British authorities are worried about the threat of a flight from reality in the equity market. Cameron Cobbold, governor of the Bank of England, has warned about "the disquieting rise in equity prices," implied that controls might be on the way.



Toronto: In comparison to the rocketing prices on most other exchanges, Canadian stocks look rather sick. In 1958, the Canadian economy was slow to recover from its recession, which was much deeper and longer than the one in the U. S.

Then, in 1959, though the economy recovered smartly, the Bank of Canada tightened money early in the recovery. This was an aftermath of the refunding in 1958 of about 40% of Canada's national debt. To support the refunding, the Bank of Canada had allowed the money supply to jump about 15%, and it was afraid of the inflationary implications of any further credit easing.

The result of this one-two punch of recession and tight money is evident in the chart, which shows that through most of 1958 and 1959 prices on the Toronto Stock Exchange haven't kept pace with New York. Many Bay Street brokers note that despite the normally close ties between New York and Toronto, Canadian share prices in recent weeks haven't responded to the stimulus of Wall Street's climb back to its August peak.

An important reason for this lethargy is that average yields are already low—only a little more than 3%—and price-earnings ratios high—almost 18 times current earnings.

Moreover, U. S. enthusiasm for Canadian shares has cooled considerably. Uranium shares are now under a cloud. One of the largest companies, Northspan Uranium, has already had to ask its bondholders for an extension of time to meet payments (BW—Jul.18'59,p52); another, Stanrock, went into receivership.

At present, Canadian brokers are even more preoccupied than usual with what Wall Street is doing, for they fear that in the event of a decline in U. S. stock prices, the Canadian drop will be even steeper. In addition, there's concern about the size of the deficit in the Canadian balance of payments—now running close to record levels—and the negative effect this may have on Canadian business. It's widely recognized that the high premium on the Canadian dollar—now over 5% in relation to U. S. currency—hurts Canadian exports, particularly, of course, in the U. S. Partly for this reason there has been a resurgence of interest in Canadian paper companies, which quote prices in U. S., rather than Canadian, dollars.

Canadian stock prices have also suffered from the high level of money rates, which have been drawing funds out of the stock market into bonds. High-grade industrial bonds in Canada now yield well over 6%—in contrast to the common stock yield of about 3%. The size of this spread has led to considerable switching into bonds. Investment houses in Toronto are reporting "unusually heavy" activity in their bond departments, and a corresponding drop of interest in equities.

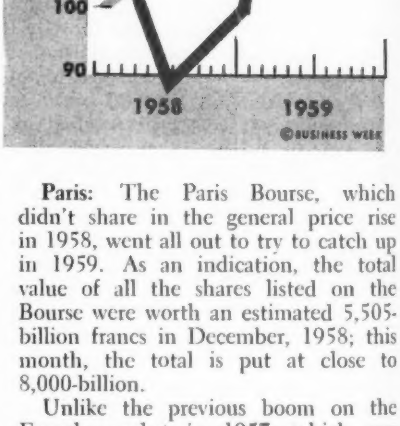
As for 1960, Bay Street brokers say it will depend on which way the New York market goes. But as one Toronto observer puts it, "Chances are that prices will be lower at the end of 1960 than they are at present."

Frankfurt: On the Frankfurt Exchange, which has a reputation for wide swings in stock prices, stocks have performed true to form, rising far faster and further than on other European exchanges. There has been what has been described as a "phenomenal" increase in the popularity of equity investment. Until a few years ago many middle-class Germans considered buying equities as either immoral or solely for the very rich. Today one German in a hundred dabbles in the market. According to one Frankfurt broker, "What the German investor doesn't know about stocks, he makes up for in enthusiasm."

There has also been heavy American and other foreign buying of shares in the blue-chip companies that have been the mainsprings of the postwar German recovery. This buying began in volume in early 1959, attracted by the fact that many German stocks were cheaper—on a price-earning basis—than comparable U. S. companies. For example, when Union Carbide was selling about 35 times earnings in New York, Badische Anilin-und-Soda Fabrik could be had for 21.8 times earnings.

Mutual funds have added to the explosiveness of German stock prices. In 1956, total stock holdings of the German funds amounted to only $25-million. Today, estimates of their holdings are in the $500-million range. Since most German funds do very little trading, tending instead to salt shares away for the long pull, this has led to a real shortage of stock.

It's because of this shortage that many German observers expect stock prices to rise another 30% to 40% in 1960. Even the more pessimistic German brokers are predicting a 15% to 20% rise. But they all caution that the German market is very sensitive to political factors, that any deterioration in East-West relationships could materially alter the picture.



Paris: The Paris Bourse, which didn't share in the general price rise in 1958, went all out to try to catch up in 1959. As an indication, the total value of all the shares listed on the Bourse were worth an estimated 5,505-billion francs in December, 1958; this month, the total is put at close to 8,000-billion.

Unlike the previous boom on the French market in 1957, which was sparked by a jump in oil shares, this year's gains have been across the board. Of the 16 stock groups covered by the Bourse stock index, over half showed increases of 50% or more. Particular favorites were insurance shares (which doubled), department store and textile stocks (up 95%), and bank shares (up 70%).

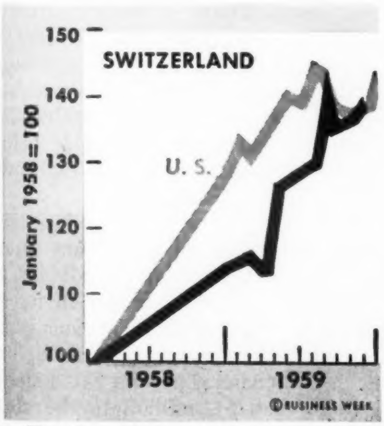
French brokers say that domestic economic considerations, rather than Wall Street influence, are the main factor. De Gaulle's economic reforms, which included a 17% devaluation in the franc, have stabilized French finances for the first time since the war. But Paris brokers say that, ironically, domestic buying by individuals has not

been the chief element behind rising prices. Rather, they report, there has been an inflow of foreign—mostly European—money, plus purchases by French investment trusts. The bulk of the foreign money comes through numbered accounts in Swiss banks, so it's not possible to trace the actual source. U.S. purchases, however, are thought to be small.

Amsterdam: On the Amsterdam Stock Exchange—traditionally an important European market despite the small size of the Netherlands—stock prices have nearly doubled in the past two years. The cult of equities, however, is still far less pronounced in Holland than in the U. S. A big portion of the demand for equities has been from foreign sources. U. S. mutual funds have been among the biggest buyers, with Phillips Lamps, the big Dutch electronics firm, heading the list of their acquisitions in the first part of 1959.

In addition, a few of the biggest Dutch companies are listed on the New York Stock Exchange, and as prices have moved up in New York, the Amsterdam market has had to keep pace. The closeness of the ties between the two markets is emphasized by the fact that over 200 U.S. companies are officially quoted in Amsterdam. "This means," says one Dutch broker, "that there are very few days when the two markets don't move together."

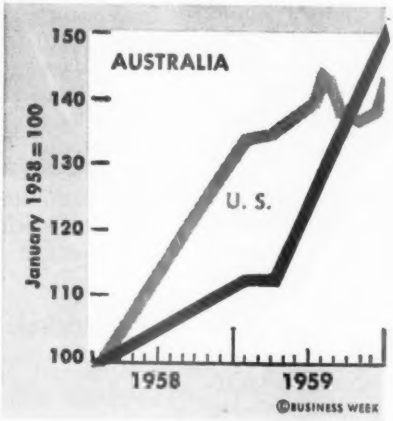
The big Dutch investment trusts have also had considerable influence on the upswing in prices, even though they generally put 50% of their assets in stocks outside Holland. But what the Dutchmen aren't buying for themselves, other European—as well as U.S.—investors have been scrambling for. During 1959, in fact, total foreign buying of stocks in Holland is estimated at about 1-billion guilders, equal to approximately $250-million at current exchange rates.



Zurich: Swiss stock prices were pushed up sharply in 1959 by a big increase in individual stock purchases, principally through the medium of mutual funds. "More and more" says an investment banker in Geneva, "small savings are going to the funds." The growth of this type of investment has been so great that the government is considering special legislation to bring the funds under control.

The Swiss stock market, of course, is very small, with active trading limited to a few blue chips. As a result, most Swiss funds have been investing heavily in foreign securities. In the past year, total capital exported in this fashion ran to over $100-million. The Swiss government's desire to slow this drain on foreign exchange reserves is what's behind the talk of controls over the mutual funds.

In general, the Swiss investor has endorsed the growth stock idea, and is willing to buy stocks at very low yields, in many cases less than 2%.



Australia: In the past year, Australian stocks have enjoyed much the same sort of boom that has characterized European stock markets. Over-all, the volume of stock trading jumped about 30%, and yields on shares of leading blue-chip companies have dropped to only 2% or 3%.

As in other countries, much of the new money going into the Australian market is coming from mutual funds and other institutional investors. Mutual funds are already the largest single class of stockholder in the country. The big insurance companies also have been increasing the proportion of equities in their portfolios, buying principally blue-chips. This has led to big price increases.

There has also been a surge of speculation in stock of companies considered likely candidates for mergers—or takeover bids, as the Australians, and British, call them. Capital gains aren't taxable in Australia, and spectacular profits have been reaped in some recent merger deals.

Wall St. Talks . . .

. . . about New York City bankers and the suburbs, Dorsey Corp.'s rise, speculators' war with Toronto Exchange.

Now that Gov. Nelson Rockefeller has dropped out of the Presidential race, New York City bankers think they have a better chance of getting a law that will let them invade the rich suburban territory. They figure that while Rockefeller was on the national scene he didn't want to risk any charge of favoring Wall Street. Now they expect him to back the bill strongly.

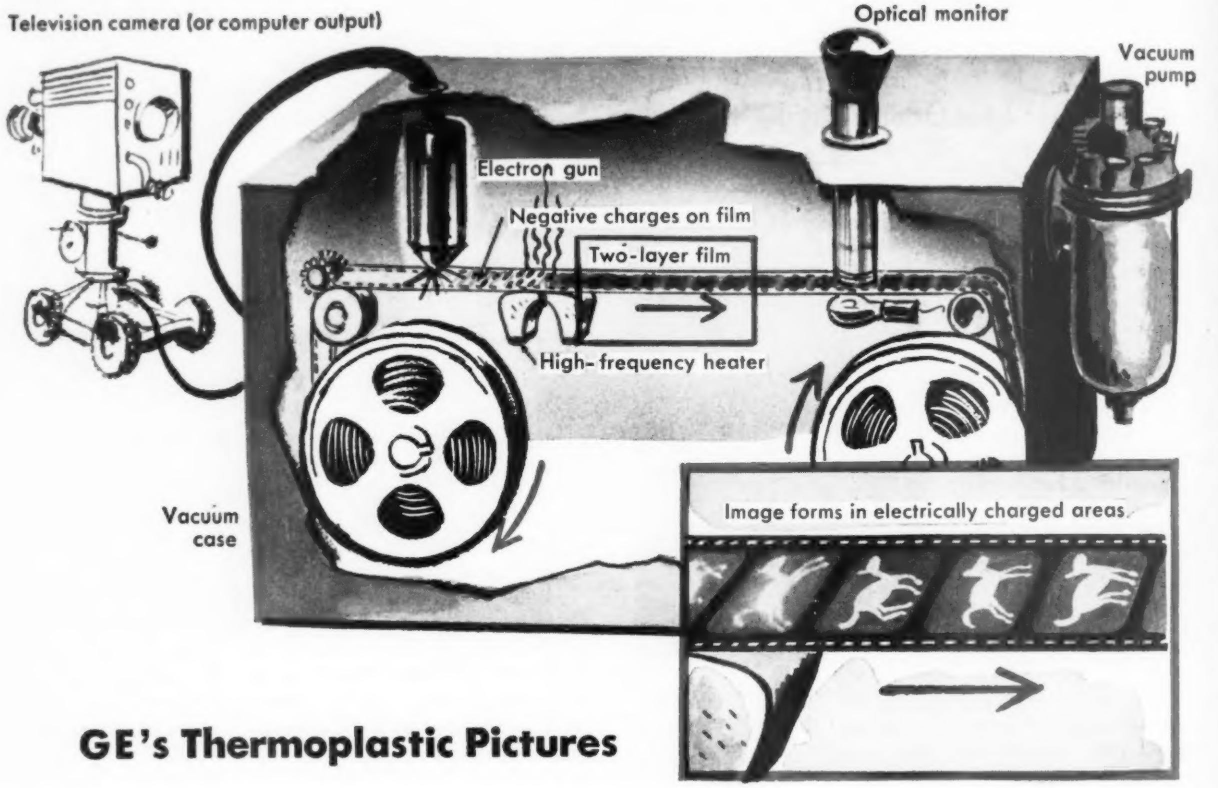
Reports that **Dorsey Corp. may buy six big Miami Beach hotels** have caused its stock to jump from $9 to $13 on the American Stock Exchange, according to brokers. William Husted, new president of the holding company, has been talking things over with the hotel-owning group, headed by Morris Lansburgh.

Mutual fund salesmen want to know whether Investors Planning Corp. of America will exercise its new options to buy 50,000 shares of Reinsurance Investment Corp. at $3.26 per share. (RIC traded at $4.25 this week on the American Stock Exchange.) If IPC, a big retailer of fund shares, does pick up the option, **it is likely to set a trend among fund retailers by having its qualified salesmen sell life insurance as well as mutual fund shares.**

The infighting between some of Canada's big speculators and the top brass of the Toronto Stock Exchange has Bay Street buzzing. The exchange has been pushing a strong "reform" program in the past year, tightening up stock trading rules. **The speculators are fighting back by trying—vainly so far—to dump the exchange officials.**

There's a new trend in naming "hot" issues, underwriters claim. A few years back, most new offerings sported the tag "onics"—Transonics, Ionics, and the like. Now the fashion is "tron," with Transitron (the hottest new issue in a long while), Astron, and Dutron among the latest. A climax is reported, with a company named Ovitron soon to hit the market.

The heavy volume of bond issues coming to market later this month has dealers worried. Just in state and municipal financing, more than $600-million bonds will go on the market—including a $200-million New York State Power Authority issue.



GE's Thermoplastic Pictures

Recorder Gives Instant Playback

Motion pictures, television, and data processing are all about to get a new electronic technique of recording and filming. Next week, General Electric Co. will unveil working models of a new device (suggested by the diagram) that the company calls a thermoplastic recorder.

GE claims that it has two big advantages:

- There is no delay between recording and playback. The recorded material is available instantly and without processing, just as in magnetic tape recorders and video tape.
- The recorded material is visible. Pictures or data can be examined with simple viewing devices. Thus, motion pictures recorded on the GE device can be edited visually, which is much simpler than editing video tape on an expensive tape machine.

• **Cat Out of Bag**—GE officials refuse to talk about the new recorder until the scheduled release on Jan. 12. But Dr. W. E. Glenn, of the General Electric Research Laboratory, jumped the gun a bit by publishing a paper on the system in the Journal of Applied Physics. From his data, and the comments of TV and motion picture engineers, it appears that GE has pulled off a major development.

• **The Method**—The thermoplastic recorder combines electronics and optics to produce a visible image on a double-layered film that is not unlike motion picture film. However, the old film's photosensitive emulsion is replaced on the GE film by a layer of transparent thermoplastic on its sensitive side. And the film is exposed, not to light, but to a stream of electrons from an electron gun similar to that in a TV tube.

Since the film will not conduct electricity, the electrons sprayed on its surface stay put, and varying charges can be built up on the surface by scanning the film, just as the electron beam in a TV tube scans the phosphorescent face of the picture tube. Immediately after the charge is laid on, the film is heated by a radio frequency device that softens the thermoplastic layer.

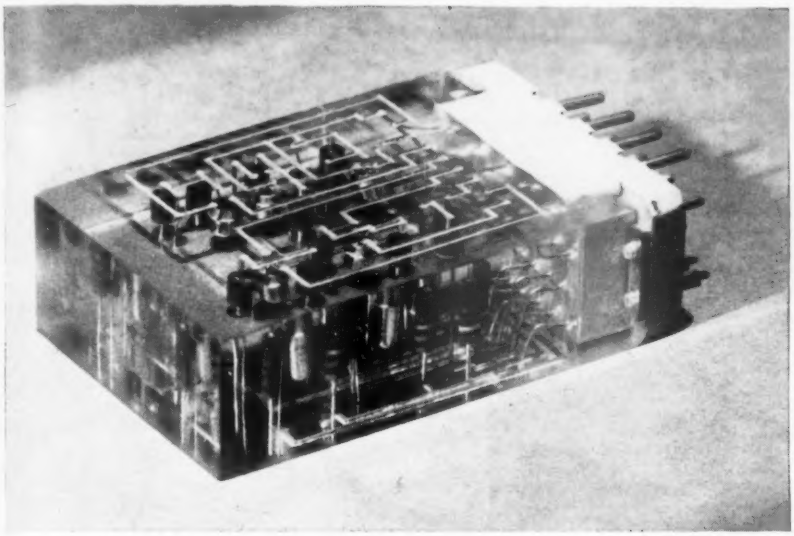
The electrons piled on the surface are attracted to the base layer under the thermoplastic, and they distort the surface of the film in proportion to their density. The result is a sort of bas relief image of the film; when the film cools, the image is permanent.

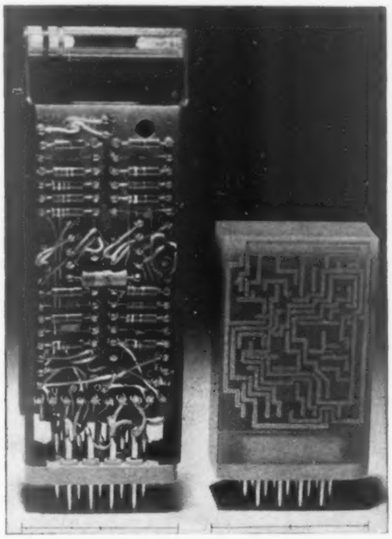
With special filters or auxiliary equipment, it makes a passable picture when projected on a screen. With more sophisticated masking and projection equipment, the tape can even produce colors by taking advantage of the principal of diffraction, which breaks light into its spectral colors.

The recorder can pack tremendous amounts of data in either digital or continuous signal form on small areas of tape, thanks to its sharp focusing. Digital data can even be recorded in colors to distinguish its source; a tape so recorded might resemble a many-hued checker board.

• **Very High Vacuum**—In the equipment described by Dr. Glenn, all recording must be done inside a vacuum chamber pulled to an almost perfect vacuum of 0.1 micron. That would seem to mean that a gas diffusion pump would be needed, and that plenty of time would have to be taken to outgas the tape and the box. It will be learned next week whether GE has managed to eliminate some of the vacuum equipment or to reduce its size.

In most other respects, the system seems economical and practical. The tape, like video tape, can be erased and used over again. END





Lincoln Lab Builds Electronic Package Backwards

A new type of multiple-component electronic package developed at Massachusetts Institute of Technology's Lincoln Laboratory may simplify production of many types of subminiature communications and control systems. Lincoln Lab's package uses electroplated wiring and connections, completely eliminates soldering.

The trick is to reverse the usual order of manufacturing electronic circuitry. The components—transistors, resistors, capacitors—are arranged in a three-dimensional pattern, then encased in plastic with their leads sticking through the surfaces.

Milling off the six sides of the plastic block leaves only the ends of the components' leads exposed. Copper-plating the entire unit interconnects all the leads; then the unwanted copper can be etched away, leaving only the proper circuit.

Ordinarily, in printed circuit construction, the circuit board comes first, the components are soldered in, and then the whole assembly is "potted" in plastic, if necessary. The Lincoln Lab's system, on the other hand, prints the circuit on the package of components.

According to E. A. Guditz, a Lincoln Lab staffer who described the process in an article in Electronics, a McGraw-Hill publication, the elimination of soldering in microminiature packages reduces the chance of connection failure, gives lower resistance connections, and avoids exposing temperature-sensitive devices such as transistors and diodes to high soldering temperatures. And, where high temperatures are needed, the plated connections can stand a lot more heat than low melting point solders. For very complex circuits, it is relatively simple to plate on layers of wiring and connections. All that's needed is a plastic coating over each plated wiring system, then the next wiring can be plated on. A tapered hole is drilled through the plastic coating before the second plating operation to provide interconnecting circuits.

Vest Pocket Oxygen Tank for Heart Patients

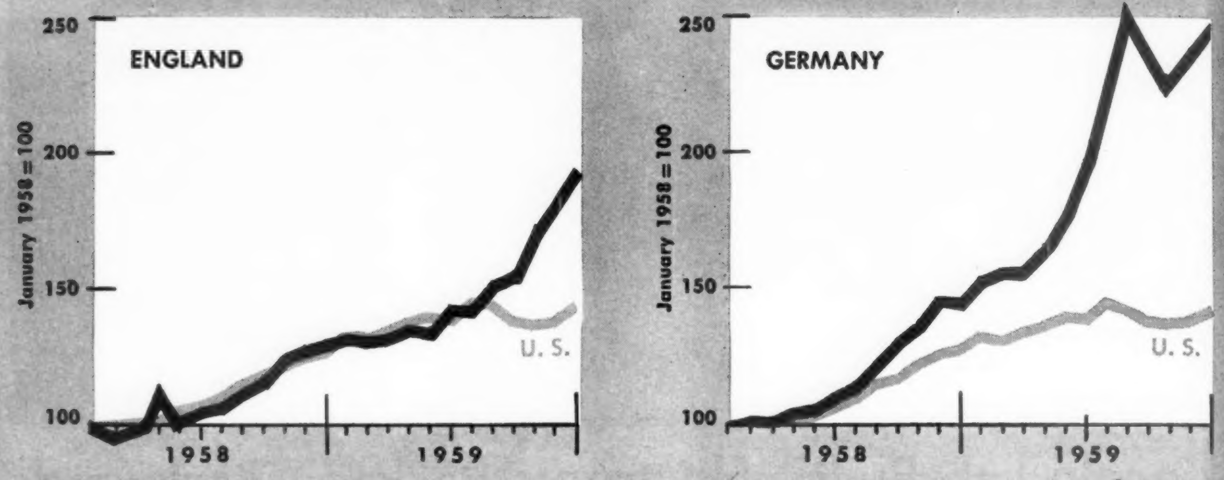
A pocket oxygen dispenser (picture), about the size of one of the metal tubes in which cigars are sometimes packed, is designed to help heart patients and to provide protection against shock, smoke, and oxygen-failure in planes. (Besides that, while there's no medical proof that it will cure a hangover some doctors believe that alcohol ties up enough of the oxygen in the system to create a minor but noticeable shortage, and the dispenser probably would have a sobering effect on a person who feels the effects of a couple of drinks.)

The Oxy-Hale was invented by Dr. Alvan L. Barach, professor of clinical medicine at Columbia University, to provide a ready source of oxygen to relieve cardiac pain—initially caused by lack of oxygen—and to help fend off the effects of a coronary attack before the patient gets to a hospital. It also makes it easier for heart patients to take normal exercise, and in some cases its regular use may reduce the incidence of anginal attacks, according to Barach. Other possible applications include the easing of bronchial asthma, croup, and oxygen shortage caused by strenuous exertion, such as mountain climbing, or by high-altitude flights.

The Oxy-Hale is an aluminum tube containing a 2½-in. cylinder that compresses three liters of oxygen to 5,000 psi.—2½ times the pressure of hospital oxygen cylinders. One cylinder provides up to two minutes of oxygen, which is mixed with air through a device that allows the user to adjust the concentration of oxygen from 26% to 90%. The cylinder can be replaced in eight seconds. The user inserts the tube directly into his mouth.

Manufacturer: Controlled Pressure, Inc., Erie, Pa. Price: $12.95 for the tube; $4 for 10 cylinders.

1958-1959: A great bull market around



Data: Standard & Poor's and local industrial stock price indexes.

©BUSINESS WEEK

Stock Climb Spans Globe—But It's

The cult of equities, which has become a dominant force in the U.S. stock market, has spread around the world. This is clearly evident from the charts above and on the following pages, which show that share prices have been advancing, almost without interruption, in every major foreign stock market.

Moreover, BUSINESS WEEK's annual survey of the world's stock markets indicates that brokers and investors in foreign financial centers expect the rising price trend to continue through most of 1960. In view of the extent to which equity prices have already gone up, however, it is doubtful that stocks will do as well—relatively—in 1960 as they did in 1959.

In their rush to buy shares to hedge inflation, investors—both American and foreign—have bid up stock prices to the point where stock markets are suffering from an inflation of their own. Growing investor consciousness of this market inflation means that despite a rosy economic outlook for 1960 all over the free world, stock prices are likely to move up a lot more slowly than they have to date. There is also the possibility of some sharp sell-offs.

In addition, markets overseas continue to dance to Wall Street's tune—and the current uncertainty in the New York market is bound to be reflected in other markets around the world.

• **Tokyo Break**—A good example of the more cautious attitude toward stocks that's likely to characterize 1960 came in the sharp break two weeks ago on the Tokyo Stock Exchange. In one day, the Japanese industrial stock index—patterned on the popular Dow-Jones average—dropped 32.50 points, or roughly 3.6%.

It was a technical correction, not related to any particular news; but it was the second sharpest drop in postwar Japanese history, exceeded only by the 1953 slump after Stalin's death. A lot of small investors, who had rushed to put year-end bonuses in the market, were burned, and enthusiasm for equities in Japan has cooled considerably since then.

THE SHAPE OF '60

• **General Stability**—But most markets have had no shake-outs lately. On the contrary, brokers say that equities are more stable than they used to be. That's because the public is stepping up its buying in ever-increasing numbers.

Then, too, there has been a worldwide expansion in mutual funds, which is expected to continue into 1960. With funds buying actively, it's hard to see a sharp break in equity prices in any country.

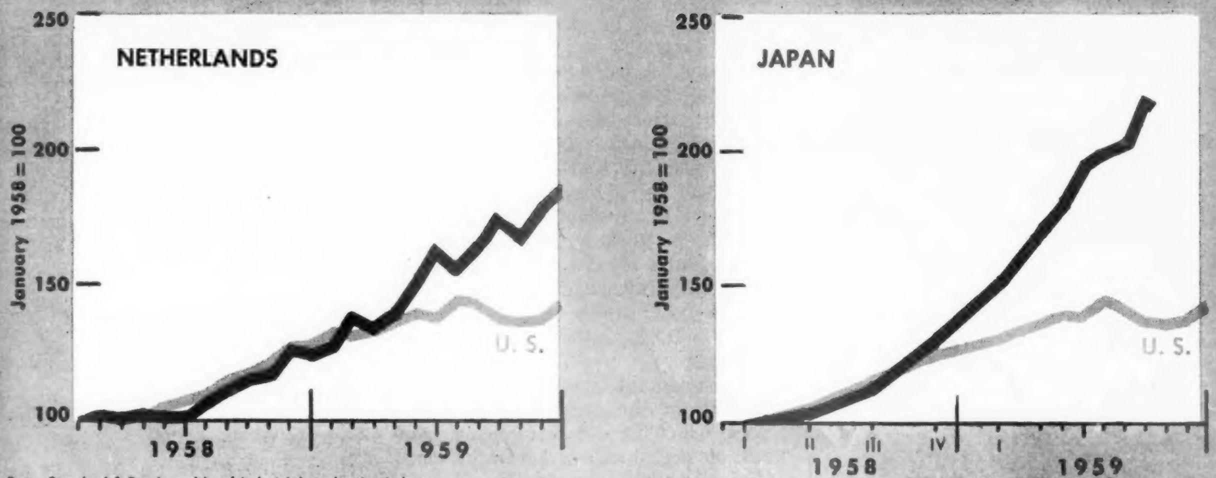
• **Changed Attitudes**—The U. S. public is more equity-minded than any other. But in London and Frankfurt and Paris, where stock buying was once largely a professional affair, a new wave of public interest is now evident. The same holds true on other foreign exchanges. This fundamental change in the public's attitude is bringing about still other changes:

• The U.S. growth stock principle, which puts a priority on capital gains rather than yield, is now commonly accepted. It is particularly strong in London, once considered the prime example of the yield-conscious market; for the first time in history, common stocks are yielding less than long-term government bonds (chart, lower right). The trend is also marked in Germany, where yields on popular "growth" stocks have dropped from a level of $4\frac{1}{2}\%$ in 1958 to less than $2\frac{1}{2}\%$ today, solely because of the bidding up of prices.

• The public has been sold on the idea of mutual funds—or unit trusts, as they are generally termed outside the U.S. The demand for mutual fund shares has funneled funds into equities, and in some countries, such as Japan, mutual fund buying actually dominates trading in listed securities.

• Large-scale public interest has put pressure on foreign companies to release more information to shareholders. This in itself is leading to increased investor interest—especially on the part of Americans who, up to now, have been reluctant to purchase foreign

the world



Data: Standard & Poor's and local industrial stock price indexes.

Tiring a Bit

stocks because they knew so little about them.

Because public participation in foreign markets still lags behind the U. S., and because most economists think that the overseas boom has further to go than our own, they look for prices to rise higher on foreign stocks than on most U. S. shares. They expect this prospect to lure many more Americans into foreign markets in the hope of making profits on rising price levels.

• How They Look—Here's how the trends shape up market by market:

London: In England, 1959 will be remembered as the year when equities finally came of age. For the first time, the "yield gap" between commons and long-term bonds was closed, and as the chart shows, stock yields have continued to decline while bonds have gone up slightly. London brokers emphasize that this represents a fundamental shift in attitude. The hunt for growth stocks—and capital gains—is on with a vengeance, they say.

This shift is reinforced by the English tax structure. In Britain, dividends are subject to a withholding tax that runs about 40%, while capital gains are entirely tax-free. A capital gains tax was an important plank in the Labor Party platform, and when Labor went down to a thumping defeat last October, the stock market took off on its biggest one-day bull rush in history.

Equities have been winning a new respectability in Britain in the past year. Institutional investors—municipal corporations, trusts, and union pension funds—have all been amending their charters to allow greater investment in common stocks. Even the staid old Church of England is now a major holder of stocks.

This trend received a big boost last week when the Macmillan government published a white paper outlining proposed changes in trust fund legislation. These will give trust funds wide discretion in buying stocks, and will eventually permit them to put up to 50% of their assets into commons.

U. S. and Continental investors have also been pouring funds into London since the Conservative victory in October. This has been an important spur to the jump in share prices—particularly of British steel stocks, which had been depressed by the Labor Party's threat of nationalization. United Steel, for instance, sold for 41 shillings just before the election, with a dividend yield of 6.1%; today it sells at about 80 shillings, and its yield is down to 3.7%.

This also holds true for the blue-chip industrial stocks in the Financial Times price index. In early 1958, they sold for only a little more than eight times earnings. Today they are selling for 11 times expected 1959 earnings.

This, however, is still well under the Dow-Jones industrials' ratio of about 20 times earnings. Thus, English equities are still relatively cheap compared to U. S. stocks. But there are already some exceptions. British steels and auto stocks command a higher price earnings multiple than their U. S. opposite

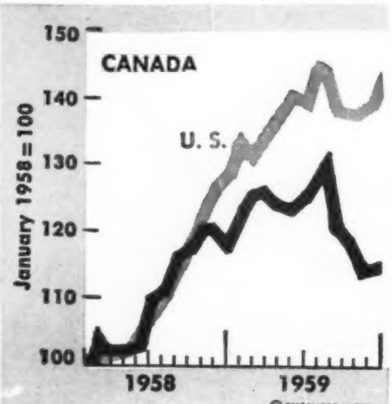
London's new inverse yield gap

Data: Financial Times.

©BUSINESS WEEK

numbers. Heavy demand will probably lead to the upgrading of other price-earnings ratios.

In fact, British authorities are worried about the threat of a flight from reality in the equity market. Cameron Cobbold, governor of the Bank of England, has warned about "the disquieting rise in equity prices," implied that controls might be on the way.



Toronto: In comparison to the rocketing prices on most other exchanges, Canadian stocks look rather sick. In 1958, the Canadian economy was slow to recover from its recession, which was much deeper and longer than the one in the U.S.

Then, in 1959, though the economy recovered smartly, the Bank of Canada tightened money early in the recovery. This was an aftermath of the refunding in 1958 of about 40% of Canada's national debt. To support the refunding, the Bank of Canada had allowed the money supply to jump about 15%, and it was afraid of the inflationary implications of any further credit easing.

The result of this one-two punch of recession and tight money is evident in the chart, which shows that through most of 1958 and 1959 prices on the Toronto Stock Exchange haven't kept pace with New York. Many Bay Street brokers note that despite the normally close ties between New York and Toronto, Canadian share prices in recent weeks haven't responded to the stimulus of Wall Street's climb back to its August peak.

An important reason for this lethargy is that average yields are already low—only a little more than 3%—and price-earnings ratios high—almost 18 times current earnings.

Moreover, U.S. enthusiasm for Canadian shares has cooled considerably. Uranium shares are now under a cloud. One of the largest companies, Northspan Uranium, has already had to ask its bondholders for an extension of time to meet payments (BW—Jul.18'59,p52); another, Stanrock, went into receivership.

At present, Canadian brokers are even more preoccupied than usual with what Wall Street is doing, for they fear that in the event of a decline in U.S. stock prices, the Canadian drop will be even steeper. In addition, there's concern about the size of the deficit in the Canadian balance of payments—now running close to record levels—and the negative effect this may have on Canadian business. It's widely recognized that the high premium on the Canadian dollar—now over 5% in relation to U.S. currency—hurts Canadian exports, particularly, of course, in the U.S. Partly for this reason there has been a resurgence of interest in Canadian paper companies, which quote prices in U.S., rather than Canadian, dollars.

Canadian stock prices have also suffered from the high level of money rates, which have been drawing funds out of the stock market into bonds. High-grade industrial bonds in Canada now yield well over 6%—in contrast to the common stock yield of about 3%. The size of this spread has led to considerable switching into bonds. Investment houses in Toronto are reporting "unusually heavy" activity in their bond departments, and a corresponding drop of interest in equities.

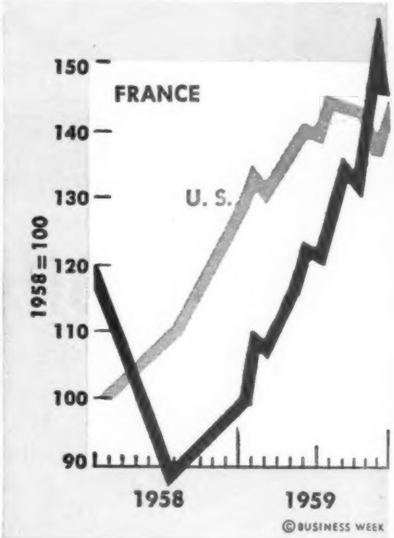
As for 1960, Bay Street brokers say it will depend on which way the New York market goes. But as one Toronto observer puts it, "Chances are that prices will be lower at the end of 1960 than they are at present."

Frankfurt: On the Frankfurt Exchange, which has a reputation for wide swings in stock prices, stocks have performed true to form, rising far faster and further than on other European exchanges. There has been what has been described as a "phenomenal" increase in the popularity of equity investment. Until a few years ago many middle-class Germans considered buying equities as either immoral or solely for the very rich. Today one German in a hundred dabbles in the market. According to one Frankfurt broker, "What the German investor doesn't know about stocks, he makes up for in enthusiasm."

There has also been heavy American and other foreign buying of shares in the blue-chip companies that have been the mainsprings of the postwar German recovery. This buying began in volume in early 1959, attracted by the fact that many German stocks were cheaper—on a price-earning basis—than comparable U.S. companies. For example, when Union Carbide was selling about 35 times earnings in New York, Badische Anilin-und-Soda Fabrik could be had for 21.8 times earnings.

Mutual funds have added to the explosiveness of German stock prices. In 1956, total stock holdings of the German funds amounted to only $25-million. Today, estimates of their holdings are in the $500-million range. Since most German funds do very little trading, tending instead to salt shares away for the long pull, this has led to a real shortage of stock.

It's because of this shortage that many German observers expect stock prices to rise another 30% to 40% in 1960. Even the more pessimistic German brokers are predicting a 15% to 20% rise. But they all caution that the German market is very sensitive to political factors, that any deterioration in East-West relationships could materially alter the picture.



Paris: The Paris Bourse, which didn't share in the general price rise in 1958, went all out to try to catch up in 1959. As an indication, the total value of all the shares listed on the Bourse were worth an estimated 5,505-billion francs in December, 1958; this month, the total is put at close to 8,000-billion.

Unlike the previous boom on the French market in 1957, which was sparked by a jump in oil shares, this year's gains have been across the board. Of the 16 stock groups covered by the Bourse stock index, over half showed increases of 50% or more. Particular favorites were insurance shares (which doubled), department store and textile stocks (up 95%), and bank shares (up 70%).

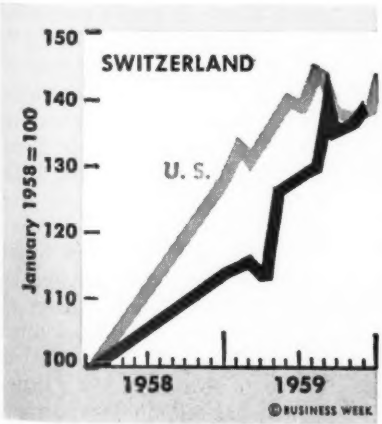
French brokers say that domestic economic considerations, rather than Wall Street influence, are the main factor. De Gaulle's economic reforms, which included a 17% devaluation in the franc, have stabilized French finances for the first time since the war. But Paris brokers say that, ironically, domestic buying by individuals has not

been the chief element behind rising prices. Rather, they report, there has been an inflow of foreign—mostly European—money, plus purchases by French investment trusts. The bulk of the foreign money comes through numbered accounts in Swiss banks, so it's not possible to trace the actual source. U.S. purchases, however, are thought to be small.

Amsterdam: On the Amsterdam Stock Exchange—traditionally an important European market despite the small size of the Netherlands—stock prices have nearly doubled in the past two years. The cult of equities, however, is still far less pronounced in Holland than in the U. S. A big portion of the demand for equities has been from foreign sources. U. S. mutual funds have been among the biggest buyers, with Phillips Lamps, the big Dutch electronics firm, heading the list of their acquisitions in the first part of 1959.

In addition, a few of the biggest Dutch companies are listed on the New York Stock Exchange, and as prices have moved up in New York, the Amsterdam market has had to keep pace. The closeness of the ties between the two markets is emphasized by the fact that over 200 U. S. companies are officially quoted in Amsterdam. "This means," says one Dutch broker, "that there are very few days when the two markets don't move together."

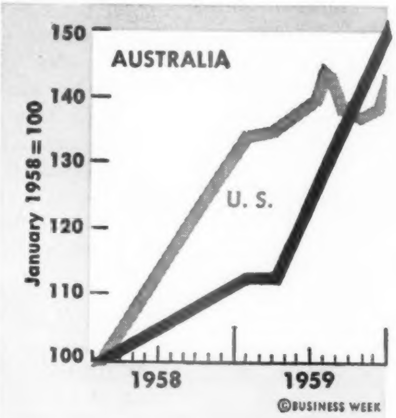
The big Dutch investment trusts have also had considerable influence on the upswing in prices, even though they generally put 50% of their assets in stocks outside Holland. But what the Dutchmen aren't buying for themselves, other European—as well as U.S. —investors have been scrambling for. During 1959, in fact, total foreign buying of stocks in Holland is estimated at about 1-billion guilders, equal to approximately $250-million at current exchange rates.



Zurich: Swiss stock prices were pushed up sharply in 1959 by a big increase in individual stock purchases, principally through the medium of mutual funds. "More and more" says an investment banker in Geneva, "small savings are going to the funds." The growth of this type of investment has been so great that the government is considering special legislation to bring the funds under control.

The Swiss stock market, of course, is very small, with active trading limited to a few blue chips. As a result, most Swiss funds have been investing heavily in foreign securities. In the past year, total capital exported in this fashion ran to over $100-million. The Swiss government's desire to slow this drain on foreign exchange reserves is what's behind the talk of controls over the mutual funds.

In general, the Swiss investor has endorsed the growth stock idea, and is willing to buy stocks at very low yields, in many cases less than 2%.



Australia: In the past year, Australian stocks have enjoyed much the same sort of boom that has characterized European stock markets. Over-all, the volume of stock trading jumped about 30%, and yields on shares of leading blue-chip companies have dropped to only 2% or 3%.

As in other countries, much of the new money going into the Australian market is coming from mutual funds and other institutional investors. Mutual funds are already the largest single class of stockholder in the country. The big insurance companies also have been increasing the proportion of equities in their portfolios, buying principally blue-chips. This has led to big price increases.

There has also been a surge of speculation in stock of companies considered likely candidates for mergers—or takeover bids, as the Australians, and British, call them. Capital gains aren't taxable in Australia, and spectacular profits have been reaped in some recent merger deals.

Wall St. Talks . . .

. . . about New York City bankers and the suburbs, Dorsey Corp.'s rise, speculators' war with Toronto Exchange.

Now that Gov. Nelson Rockefeller has dropped out of the Presidential race, New York City bankers think they have a better chance of getting a law that will let them invade the rich suburban territory. They figure that while Rockefeller was on the national scene he didn't want to risk any charge of favoring Wall Street. Now they expect him to back the bill strongly.

Reports that **Dorsey Corp. may buy six big Miami Beach hotels** have caused its stock to jump from $9 to $13 on the American Stock Exchange, according to brokers. William Husted, new president of the holding company, has been talking things over with the hotel-owning group, headed by Morris Lansburgh.

Mutual fund salesmen want to know whether Investors Planning Corp. of America will exercise its new options to buy 50,000 shares of Reinsurance Investment Corp. at $3.26 per share. (RIC traded at $4.25 this week on the American Stock Exchange.) If IPC, a big retailer of fund shares, does pick up the option, **it is likely to set a trend among fund retailers by having its qualified salesmen sell life insurance as well as mutual fund shares.**

The infighting between some of Canada's big speculators and the top brass of the Toronto Stock Exchange has Bay Street buzzing. The exchange has been pushing a strong "reform" program in the past year, tightening up stock trading rules. **The speculators are fighting back by trying—vainly so far—to dump the exchange officials.**

There's a new trend in naming "hot" issues, underwriters claim. A few years back, most new offerings sported the tag "onics"—Transonics, Ionics, and the like. Now the fashion is "tron," with Transitron (the hottest new issue in a long while), Astron, and Dutron among the latest. A climax is reported, with a company named Ovitron soon to hit the market.

The heavy volume of bond issues coming to market later this month has dealers worried. Just in state and municipal financing, more than $600-million bonds will go on the market—including a $200-million New York State Power Authority issue.

In the Markets

• • •

Alleghany Corp.'s Minority Holders Patch Up Legal Tiff With the Brass

Five years of litigation between minority stockholders and Alleghany Corp. executives wound up this week in a $3-million out-of-court settlement. The New York Supreme Court approved the settlement of a stockholder suit, which had charged Alleghany brass with using the company's funds in their "personal partisan interest."

The settlement calls for Alleghany to receive $3-million in cash from Allan P. Kirby, Alleghany chairman; Robert R. Young's estate, and Murchison Bros. of Dallas. In addition, working control of Investors Diversified Services, Inc., which oversees $3-billion in assets, would return to Alleghany.

To achieve this, the Murchisons would exchange with Alleghany their 130,000 voting shares of IDS common—representing 24% of the issue—for a like number of non-voting shares. The Murchisons received the voting shares in a series of stock transactions in 1953-55 in return for supporting Young's proxy battle for control of the New York Central RR in 1954. Return of the shares—whose market value is $33-million—increases Alleghany's hold on IDS to 48% from 25%.

The stockholder suit was filed a few months after the proxy contest by a dissident group headed by Randolph Phillips, a former Alleghany consultant. It was brought to a head a few weeks ago when Kirby began pushing for a unilateral settlement of his own. He felt the litigation had dragged long enough, and it's reported he also was stung by criticism leveled at him in his recent dispute with A. M. Sonnabend (BW—Nov.21'59,p26). The Murchisons and Mrs. Young went along with an over-all settlement when they saw they might be left stranded with the stockholder suit.

• • •

Control of St. Louis Fund Group At Stake in Directors' Election

A free-for-all fight for control of Managed Funds, Inc., loomed this week after the resignation of four of the company's nine directors. Managed Funds is the $70-million St. Louis mutual fund group that has been under Securities & Exchange Commission investigation since last spring when cousins Hilton and Hovey Slayton—who had controlled the fund—were forced out under fire. The SEC subsequently accused the Slaytons of "gross abuse of trust" in the way they handled the fund's affairs.

The five remaining directors—elected at a special shareholders' meeting only two months ago—**now say they want out, and don't intend to stand for reelection at Managed Funds' annual meeting Jan. 26.** (Under the fund's charter, whenever the number of directors falls below six, a new election is required.) Thus, the meeting will be wide open. New directors will be nominated from the floor, by shareholder committees already being formed for this purpose. As yet, however, none of these committees has tipped its hand publicly.

Behind this unusual situation is **dissension between members of the Managed Funds' board over how best to rehabilitate the company.** Some members have advocated that it remain an independent operation. The others, however, have pushed for merger with another, larger mutual fund. In fact, Managed Funds approached One William Street Fund shortly before Christmas. One William indicated that it was "interested" in taking over the fund's assets, but then the talks had to be suspended because of the quarrel on Managed Funds' board.

• • •

Churning Stocks Bring the Year To an Undistinguished Conclusion

The stock market this week closed out 1959 on a lacklustre note: It failed to penetrate the highs reached last August. While some analysts interpreted the failure as a sign of weakness, most still felt that the market averages would reach new peaks early this year. They expect stock prices to start advancing when institutions begin putting fresh funds into the market during the first few weeks of January and when the rise in business activity becomes more pronounced.

The backing and filling of the market this week was widespread. **The market as a whole was clearly in a resting period.** Though the next trend may be up, there is a growing feeling that future rises will be increasingly difficult to achieve, while future falls will meet with less resistance.

• • •

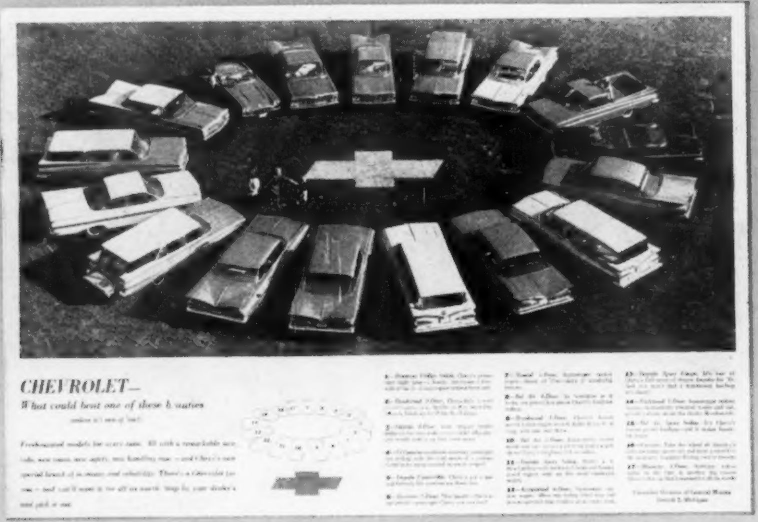
The Markets Briefs

William J. Levitt, homebuilder of Levittowns, is the latest real estate developer to take advantage of investor enthusiasm for land companies (BW—Dec.26'59,p82). He filed a registration statement with the Securities & Exchange Commission for the **public sale of 600,000 shares of common stock in Levitt & Sons, Inc.** (assets: $24.4-million). The building company already has 2.9-million shares outstanding, 2.3-million owned by Levitt.

After a brief decline, **pepper prices** are skyrocketing again. White pepper, whose supply is firmly controlled by a Chinese syndicate in Singapore (BW—Dec.19'59, p105), shot up to 90¢ per lb. this week, breaking through the 1959 high of 75¢ per lb. set late last November. Black pepper, which doubled in price in November, has climbed back up from 46¢ to 55¢ per lb.—just 4¢ below the 1959 high—despite the harvesting of the big India crop.

Two big investment companies, One William Street Fund and Lehman Corp., which are both advised by Lehman Bros., have each purchased 15,000 shares of Sanders Associates, Inc., common stock. The stock came directly from the electronic company's authorized, but unissued stock, and the purchase at around $50 a share, says Sanders, adds more than $1¼-million to the company's equity. Sanders common traded over the counter at $53 this week, its high for the year.

TOP THREE "NOTED" ADS IN BUSINESS WEEK, FIRST 8 MOS. OF '59. AS MEASURED BY THE STARCH ADVERTISEMENT READERSHIP SERVICE

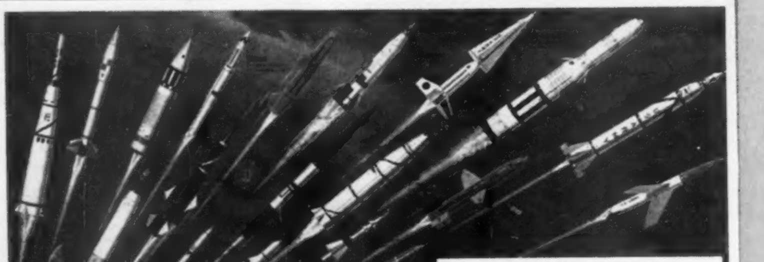


CHEVROLET DIVISION, GENERAL MOTORS CORP.

Noted 66% Seen-Associated 62% Read Most 22%

JONES & LAUGHLIN STEEL CORP.

Noted 62% Seen-Associated 58% Read Most 31%



CO-OPERATIVE ADVERTISEMENT – BURNDY CORP., EASTERN INDUSTRIES, INC., MONSANTO CHEMICAL COMPANY, RHEEM MANUFACTURING CO., THE TORRINGTON CO., WESTINGHOUSE ELECTRIC CORP.

Noted 66% Seen-Associated 46% Read Most 27%

Again

52
W
O
ST

There ar
advertise
business

One is th
vey whic
1960, eve
Week, w

The seco
PROGR
advertis
this tech
specially
arrange
by writi
Beach A

Take ad
Business
reach th
any gene
Starch r
mum rea
advertis
issue of

BU

YOU A

Again in 1960 from Business Week, you get...

52 WEEKS OF STARCH

There are two major kinds of Starch readership reports for advertisers. And only in Business Week—among general-business and news magazines—are both available.

One is the READERSHIP SERVICE—a quantitative survey which tells how many people see and read ads. During 1960, every ad, ⅔ page and larger, in every issue of Business Week, will be scored by this technique.

The second Starch Service is the READER IMPRESSION PROGRAM—a qualitative survey which tells how well the advertising message is accepted and understood. In 1960, this technique will be employed on individual ads in six specially selected issues of Business Week. (Advertisers may arrange for participation in Reader Impression Programs by writing Daniel Starch and Staff, E. Boston Post Rd. and Beach Ave., Mamaroneck, N.Y.)

Take advantage of the unique opportunity these services in Business Week provide. Advertise in Business Week to reach the most concentrated executive audience offered by any general, general-business, or news magazine. And study Starch reports to sharpen your techniques and get maximum readership per advertising dollar. Column at right lists advertisers who achieved highest "noted" scores in each issue of Business Week, during the first 8 months of 1959.

a McGraw-Hill Magazine

BUSINESS WEEK

ISSUE	ADVERTISER	% NOTED	% SEEN-ASSOCIATED	% READ MOST
January 3	Shell Industrial Products	50	47	14
January 10	Socony Mobil Oil Co.,Inc.	56	52	21
January 17	General Telephone Corp.	52	45	15
January 24	Champion Paper & Fibre Co.	51	41	11
January 31	Convair Div., General Dynamics Corp	53	51	24
February 7	Chevrolet Div., General Motors Corp	51	46	16
February 14	Chevrolet Div., General Motors Corp.	53	51	10
February 21	Bank of America	50	43	8
February 28	E. F. Hauserman Co.	49	41	9
March 7	Chevrolet Div., General Motors Corp.	53	52	13
March 14	Shell Chemical Corp.	53	48	11
March 21	Continental Can Co.	54	49	13
March 28	Jones & Laughlin Steel Corp.	62	58	31
April 4	Victor Chemical Works	55	43	36
April 11	Sheraton Corp. of America	54	53	17
April 18	Corning Glass Works	46	40	15
April 25	Enjay Co., Inc.	48	42	22
May 2	Texaco, Inc.	48	41	16
May 9	Hilton Hotels Corp.	52	50	14
May 16	Chevrolet Div., General Motors Corp.	53	52	14
May 23	Co-operative Ad. (See illustration)	66	46	27
May 30	I. T. E. Circuit Breaker Co.	52	43	18
June 6	Shell Chemical Corp.	46	42	8
June 13	Oxford Paper Co.	48	35	10
June 20	Chevrolet Div., General Motors Corp.	52	50	8
June 27	Armco Steel Corp.	55	51	22
July 4	Shell Chemical Corp.	57	51	19
July 11	Allied Chemical Corp.	53	47	19
July 18	Convair Div., General Dynamics Corp.	51	47	21
July 25	Vanadium Corp. of America	53	45	20
August 1	Burroughs Corp.	50	46	12
August 8	Chevrolet Div., General Motors Corp.	62	59	10
August 15	General Telephone & Electronics Corp.	54	49	12
August 22	Chemical Div., Goodyear Tire & Rubber Co.	56	49	8
August 29	Armco Steel Corp.	58	54	24

YOU ADVERTISE IN BUSINESS WEEK WHEN YOU WANT TO INFLUENCE MANAGEMENT MEN

PERSONAL BUSINESS

BUSINESS WEEK

JAN. 2, 1960

A BUSINESS WEEK SERVICE

One certain prospect each New Year brings is taxes.

You might as well mark up a calendar now in order to ease the task of handling your relations with the federal Treasury. **Here's a timetable of "must" tax dates through April, 1961:**

Jan. 1, 1960. Reminder: You can change your tax withholding certificate, altering the number of your personal exemptions, as often as you wish during the course of the year, assuming your company agrees. **But legally an employer is required to make only two changes in 12 months.**

Jan. 15. Pay the balance of your 1959 estimated tax; or, to avoid any possible penalties for underestimating, correct your 1959 declaration of estimated tax by filing an amended declaration, and pay the balance indicated.

Feb. 1 (since Jan. 31 falls on Sunday). **If you file your final return for 1959 and pay the entire tax due by the end of January, you can skip the Jan. 15 estimated tax filing.** If you do this, don't forget to obtain your withholding receipt, Form W-2, to attach. If you have a substantial refund coming, this is a good way to get your check at an early date.

Also, pay Social Security taxes due on wages paid to domestic servants, for the period, Oct. 1 through Dec. 31, 1959. Extra part-time domestics paid less than $50 during the three-month period are excluded. File Form 942, paying 5% of total wages earned by each covered employee—2½% withheld and 2½% contributed by you. **Note: Starting this year, this tab goes up to 3% for each.**

Apr. 15. This, of course, is the deadline date for filing your income tax return (Form 1040). If your 1959 tax has been overpaid, the overpayment may be credited against your 1960 estimated tax—assuming you file a declaration of estimated tax for 1960. In this case, you file Form 1040-ES, and pay at least one-fourth of the difference between your total tax and the amount withheld by your employer.

If, for some good reason (and "inability" to pay isn't treated as a "good" reason) you cannot file by Apr. 15, request a time extension. You can almost count on 90 days, and may get up to six months, even longer if you happen to be out of the country. Even if you find you can't pay all your tax on Apr. 15, still file a return and thus avoid a penalty for late filing.

If you borrow to pay the tax, you can deduct the interest on the loan when you file in April, 1961.

Note: If you made gifts totaling over $3,000 to any one person in 1959, you'll have to file a gift tax return (Form 709). You must file even though you won't owe a tax—for instance, where you made a large tax-free gift to a college, hospital, or charity

Apr. 30. Pay Social Security tax for domestics, for the first quarter of 1960—at the new 6% rate.

June 15. Pay one-quarter of your estimated 1960 income tax, based on your Apr. 15 declaration. **If you must, you can correct your original declaration by filing an amended declaration**—then, of course, you pay the new amount indicated

Aug. 1 (since July 31 falls on Sunday). Pay quarterly Social Security tax for domestics.

Sept. 15. Pay one-half of the balance due on your 1960 estimated tax. Again, you can correct your declaration, if necessary. If you do amend it,

be sure to pay enough to owe only one-half of your unpaid estimated tax. **The rest is due on Jan. 16, 1961 (since Jan. 15 falls on Sunday).**

Oct. 31. Pay Social Security tax for domestics.

Dec. 1. Be sure to give your company a new withholding exemption certificate if needed to reduce the amount of tax withheld from your salary—for example, where you or your wife would reach age 65 before Jan. 1, 1962.

Jan. 16, 1961. Pay balance of your 1960 estimated tax, or file your final return by the end of January.

Apr. 17 (since Apr. 15 falls on Saturday). It's deadline date again.

—•—

Is there a new house in your plans for 1960? If so, it will probably be well worth your while to take a look at **The Second Treasury of Contemporary Houses,** a new book concerned with practical, esthetic, and financial values. It contains over 400 illustrations, many of prize-winning houses, compiled by the editors of Architectural Record (Dodge, $7.75).

If you're considering an air-conditioning system for your home, you'll want to see about a new unit that provides for odor removal, winter humidification, and air cleansing. Carrier Corp.'s automatic air purifier, to be marketed in the spring, is used in conjunction with an air-conditioning system to make possible continuous control of the quality, humidity, and purity of indoor air. The unit can be installed with air-conditioning systems ($250 extra for an average size home), or as an addition to existing systems.

—•—

The cold bite of winter can be softened a little if you have a way with serving espresso coffee. Here are three suggestions: **caffe poncino**—stir teaspoon of rum in glass or demi-tasse of espresso, add twist of lemon peel, and sweeten; **cafe soiree**—heat to just below boiling point 6 teaspoons sugar, 1 in. stick cinnamon, 4 cloves, orange peel curl, and **espresso for 6 demitasse servings, then add 4 oz. rum, strain and serve with whipped cream topping; cafe royal**—place lump of sugar in teaspoon of brandy, ignite, and lower spoon over demi-tasse of hot espresso, flaming entire surface.

—•—

Garden dept.: All America Selections for 1960 flower gardens are **Glamour,** annual tetra phlox of glowing salmon pink; **Toreador,** giant hybrid Climax type orange marigold; **Spun Gold,** large mum-flowering bright yellow marigolds; **Vanguard,** rose pink double snapdragons.

You can get seeds for the winners (selected after pre-introductory testing and rating of new varieties for North America) from leading seed dealers.

—•—

Start packing: You will get speedier air service and more of it in Europe this year. **The International Air Transport Assn. reports that about 90 jet and turboprop aircraft (new 707s, DC-8s, Caravelles, Electras, and Comet 4Bs) will begin service in April on lines operating to and within the Continent** . . . The official U. S. S. R. travel office, **Intourist,** says Russia expects a record travel year (530,000 tourists from 90 countries visited Russia in 1959) . . . **If you've had a long-time yen to play golf in Britain,** an excellent directory of where, when, how much—even what number to call—is available upon request from **British Travel Assn.,** 680 Fifth Ave., New York 19.

Concerto for Organ and Brass

TOP BRASS at Conn, including Pres. L. B. Greenleaf and Chmn. Paul M. Gazlay, indulge in a jam session on Conn instruments.

C. G. Conn, Ltd., has found a profitable manufacturing combination—band instruments and electronic organs.

The average musician might wince at the mixture of instruments in the combo above—in which the players are all corporate brass. Band instruments and organs don't usually blend. But together they produce harmony at C. G. Conn, Ltd., of Elkhart, Ind., long the nation's largest maker of band instruments.

Conn estimates that today it turns out about 25% of all such instruments sold in the U. S., about 33% of all made here. But for more than three decades it has been trying to find a profitable avenue of diversification to give itself a broader earnings base and to level out its income. Revenues from band instruments are concentrated in early fall when school starts.

The company tried pianos, it tried drums, it tried guitars, it even went so far afield as furniture and locknuts. Nothing quite worked out. Then, through a casual followup of an unsolicited letter, it got a significant chunk of the booming business in electronic organs. This has been so successful that it has happily shut off all other subsidiary operations to focus on nothing but organs and band instruments—which Pres. Leland B. Greenleaf, Chmn. Paul M. Gazlay, and their top management colleagues are playing in the jam session in the picture.

• **Sweet Music**—A few figures demonstrate the crescendo in the organ business. Total organ sales in the U. S. were estimated at more than $100-million in 1958—and were expected to double in 1959. Almost half the 1958 take came from small "chord organs," in which each key plays an entire chord instead of a single note. These sell for as little as $100 and are often portable.

But the bigger home electronic organs, such as Conn is manufacturing, are gaining popularity, too—at a retail price starting between $900 and $1,000. Sales jumped from an estimated 9,000 in 1947 to 75,000 in 1957 and an anticipated 100,000-plus in 1959.

Hammond Organ Co. commands one-third to one-half of this market. Conn, with about $7.5-million in organ sales (out of a $14-million total) last year, is one of a quartet of companies fighting for second place. Its rivals are the organ divisions of Baldwin Piano Co. and Wurlitzer Co. and the Lowrey Organ Co., a division of Chicago Musical Instrument Co. Lowrey, a recent entry specializing in lower-priced consoles, is regarded by Conn as a closer competitor than the other two.

The 30 years of diversification moves—sometimes flops, at best anemic successes—that preceded Conn's organ venture provide some general rules on how not to diversify.

I. How Not to Diversify

Conn's passion for diversity began in the 1920s, when the saxophone craze ended abruptly—and with it a decade of prosperity. To bolster sales, the company—under Carl D. Greenleaf, father of the present president—started a program of fostering high school bands; sales to school bands now make up far and away the biggest share of Conn's instrument business. (The company even sells a $1 plastic flute to students in the lower grades, to accustom them to Conn instruments.)

• **Too Big or Too Small**—But the company wanted to get into other lines, too, and over a period of years it made a number of tries—none of which worked out very well.

Sometimes the failure was due to too

much competition from small shops. In the musical instrument industry, many small shops employing only a few men can get along by producing just one kind of instrument. This is because raw materials account for only 15% of the cost of the average band instrument, compared with a 57% average raw material cost for all industry in 1957, and because the manufacturing processes involved are fairly simple. Many manufacturers will "operate for wages," one Conn official complains. Many of these rival shops are cheek-by-jowl with Conn in Elkhart, a town of 36,000 with no fewer than 19 musical instrument makers.

In brass instruments, where Conn's reputation dates to the early 1900s, the company can stay dominant enough to operate profitably—although in some smaller instruments, such as flutes, its market share has dwindled to 5% because of competition from the small shops and foreign manufacturers. But in drums, for example—which Conn started making in 1929—the rivalry was so keen that Conn could never charge prices high enough to bring a satisfactory return. So it sold the drum business in 1956.

• **Meager Slice**—In the drum venture, Conn proved too big to vie successfully with its penny-ante competition. In other diversification tries, it was too small for success. It bought two piano companies "for a song" in 1939, but in its best year it captured only 0.6% of the piano market. Unable to buck the bigger piano manufacturers, it eventually abandoned the line.

During World War II, with output of musical instruments stopped, Conn purchased a patent for a special kind of locknut and turned it out for defense contractors. It continued locknut production until 1947, but locknut making was essentially a task for a uniform production line, and Conn was more of a big job shop. So it sold out.

For three years, Conn plunged into furniture making, then decided it didn't have the background to make for success, and wrote the venture off in 1946. It attempted disk and wire recorders and gave up, too, on the ground that the market was too limited, just before tape caught on. It also tried guitar making; Conn officials say that this was the only experiment that they actually lost money on.

Last year, Conn closed the Evanston, Ill., jobbing office of Continental Music Co.—its first try at diversification, launched in 1923. Continental was a jobber and retailer of music products; it still does some jobbing and warehousing, but only out of Atlanta. By the time Conn began what it called the "orderly liquidation" of Continental, it had found a new line that was flourishing—electronic organs, which for

the first time accounted for more than half the company's income in the fiscal year ended last April.

II. Upbeat on the Organ

Conn moved into electronic organs almost accidentally. In 1946, an unsolicited letter came to the New York office of Continental Music—and sent Gazlay, then head of Continental and a New York visitor, off to Philadelphia to see an inventor named Spencer W. McKellip. He had developed an electronic tube that would give off two tones instead of the usual one. Conn kept track of the device as McKellip worried it through the Patent Office, finally took an exclusive license when the patent was awarded. Conn organs went on the market in 1947—about the same time as Baldwin and Wurlitzer introduced electronic organs.

The organ business made sense for Conn in several ways. It had done electronic research during World War II on such devices as sonar, and Conn's acoustical researchers after the war were trying to find precise scientific definitions for the sounds of various instruments. Once defined, the individual sounds could be imitated electronically by the organ. In addition, organ sales helped steady Conn's income, which always reached a September peak from band instruments, then sloped off.

• **Restless Dealers**—But the organs have created problems, too, especially in dealer relations. Around 20% of Conn's organ dealers also handle the company's band instruments, and they are sensitive to discrepancies in selling practices. For example, organ dealers get exclusive territories; band instrument dealers don't. The brass-and-reed end of the business is willing to wait longer for its money; about 80% of sales are on a rent-trial basis. Band dealers have more trouble disposing of consumer paper.

As a remedy, Conn has arranged a trial plan for a financing company to take band instrument paper. And it hopes for standardization of all sales policies now that it has just one general sales manager. Previously, sales managers of organ and band branches reported directly to Chmn. Gazlay.

Some of Conn's band instrument people resent the organ's prominence a little. But the organ is obviously at Conn to stay. Gazlay predicts that it will be responsible for 75% of the company's sales before long. Last fall, the company opened a new $1-million plant in Madison, Ind., devoted entirely to organ making. To smooth the ruffled feelings of the band partisans, Conn organ advertising now mentions the company's band instrument business—something notably missing from all organ promotion before. END

A Career Break for Non-Whites

Expected shortage of skilled labor in the 1960s is putting more pressure on the government and on private industry to integrate minority groups into white-collar jobs.

J. W. Adams, a production worker at Lockheed Aircraft's Georgia Div. at Marietta, believed that he was being discriminated against because of his color. He, therefore, filed a complaint with the President's Committee on Government Contracts.

The company, which has a long record of employing members of minority groups, was mildly astonished. It immediately transferred Adams to the position of illustrator in a formerly all-white department. What surprised the company, perhaps, was the fact that Adams took a 22¢-an-hour pay cut to get the new job.

The career change made by the 32-year-old Negro may become more typical over the next decade as employers scramble for trained people among workers falling in what sociologists call the prime working group—those between the ages 25 and 44. Here's where most shortages will occur in the 1960s

• **New Strategy**—Labor force statistics also show that job opportunities in manufacturing are dwindling as openings increase in service, finance, and government.

The Committee on Government Contracts, which polices government contracts to insure equal employment opportunities, has decided to gamble on these trends within the labor force. This week it announced a new strategy for the 1960s, emphasizing the integration of minority groups into white-collar positions. CGC is doing this despite the fact that most government contractors are in manufacturing.

• **Preview**—Here's what the committee believes is in store for employers over the next decade:

Companies increasingly will have to tap minority groups for resources hitherto chocked off because of discrimination. Many minority group members are working at jobs that do not fully utilize their skills. The committee's annual report to the President comments that employers who look only for male white workers under 45 will be in trouble in the next decade. These workers will not be available in the numbers required.

Employers will be faced with unusual recruitment and training problems. The American economy, the committee reports, will need an increase of nearly 50% in professional and technical occupations, 80% in proprietors and managers, 25% in the clerical and sales force, 23% in numbers of skilled craftsmen, and 25% more service workers. The increase projected for semiskilled workers is only 15% and no increase is foreseen for laborers.

To supply the demand, employers will have to depend upon the very young as well as older workers, says CGC. The larger part of a projected expansion of 13.5-million workers over the 1960s will consist of workers under 24 and workers over 45. Of this group, a growing number will be non-white. Census estimates on the composition of our labor force in 1968 show a very high proportion of Negro men under 20 and over 45. Negro women of all ages have a higher participation rate in the labor force than white women have.

The non-whites are likely to have less training, especially in the needed skills. Recent Census Bureau data show 80% of white children between 14 and 18 are attending high school while only 65% of Negro children in the same age group are enrolled.

Employers must act to break through the barriers of custom by initial placements in positions traditionally denied to Negroes. White-collar jobs, the committee notes, have never been readily available to non-whites. For example, in 1959 only 23,000 Negro women were in sales positions, as compared with more than 1.5-million white women. Fewer than 200,000 Negro women held clerical jobs, in contrast to nearly 6-million white women.

• **Change Comes Slow**—To change this picture means a lot of slow, hard work. A serious shortage of certain skills, of course, might speed up the process—if Negroes with the right sort of training are available.

CGC, established in 1953 by executive order of Pres. Eisenhower, is charged with the responsibility for monitoring the standard clause in all government contracts forbidding discrimination in employment on government projects on the basis of race, color, religion, or national origin.

Its progress is difficult to measure. Some critics have charged that the committee did little until recently to enforce the no-discrimination clause in government contracts. In 1957, the committee instituted a compliance survey program. It was both a way to check up on discriminatory practices and a means for applying pressure for a change. For example, the 1958 survey turned up 33 plants that employed no Negroes. These were subjected to special surveys and required to make monthly progress reports on their hiring and upgrading practices.

In 1958, the committee made its first study of the compliance survey program. The picture it painted was dismal, indeed. Few Negroes were found in white-collar jobs, in skilled work classifications, or in apprenticeship or on-the-job training programs. The committee also found that employment practices in plants of multiplant corporations were frequently at variance with the nondiscriminatory policy set down by the home office.

• **Breakthrough**—This year the compliance surveys began to pay off. The committee reports a fair measure of progress. Ironically, the recession provided an off-beat confirmation of the committee's work: In 115 major plants surveyed in 1958 and 1959, total employment dropped 4%. However, the decrease of 1.1% in the Negro work force was proportionately less than in the total work force. Also, Negro white-collar employment was approximately one-third higher than in 1958.

Other breakthroughs recorded in the committee's report to the President include: Discriminatory items were eliminated from pre-employment applications; discriminatory specifications were cleaned out of job orders; written statements of a nondiscriminatory employment policy were included in company regulations, handbooks, house organs, and collective bargaining agreements; recruitment sources were broadened to include minority group schools and employment agencies servicing minorities.

• **More Opportunities**—CGC feels that its emphasis on "direct negotiations" with major contractors in order to get employers to initiate hiring of Negroes in jobs traditionally denied to non-whites is successful. However, much more remains to be done.

Negroes still find it difficult to enroll in apprenticeship and on-the-job training programs where exclusionist practices frequently prevail. CGC hopes more young Negroes will seek in continued schooling skills they will need.

In the future, the committee hopes to supplement these efforts with more pressure on educators, vocational guidance counselors, and employers to see that Negro youth gets wider opportunities for training to fit them for the jobs opening up in the 1960s. END

In Labor

• • •

Cost of Living: What's Happening to It

	Total Cost of Living	Food	Clothing	Housing Total	Housing Rent Only
	1947-49 = 100				
November, 1951	**112.8**	114.6	108.5	113.7	115.4
November, 1952	**114.3**	115.0	105.2	115.7	119.5
November, 1953	**115.0**	112.0	105.5	118.9	127.3
November, 1954	**114.6**	111.1	104.6	119.5	129.2
November, 1955	**115.0**	109.8	104.7	120.9	130.9
November, 1956	**117.8**	112.9	107.0	123.0	133.8
November, 1957	**121.6**	116.0	107.9	126.8	136.3
November, 1958	**123.9**	119.4	107.7	128.0	138.4
December	**123.7**	118.7	107.5	128.2	138.7
January, 1959	**123.8**	119.0	106.7	128.2	138.8
February	**123.7**	118.2	106.7	128.5	139.0
March	**123.7**	117.1	107.0	128.7	139.1
April	**123.9**	117.6	107.0	128.7	139.3
May	**124.0**	117.7	107.3	128.8	139.3
June	**124.5**	118.9	107.3	128.9	139.5
July	**124.9**	119.4	107.5	129.0	139.6
August	**124.8**	118.3	108.0	129.3	139.8
September	**125.2**	118.7	109.0	129.7	140.0
October	**125.5**	118.4	108.4	130.1	140.4
Nov., 1959	**125.6**	**117.9**	**109.4**	**130.4**	**140.5**

Data: Dept. of Labor, Bureau of Labor Statistics ©BUSINESS WEEK

C-of-L Index Climb to Record 125.6% Means Wage Hikes for 165,000 Workers

The Labor Dept.'s mid-November cost-of-living index—a record of 125.6%—means pay increases of from 1¢ to 3¢ an hour for an estimated 165,000 industrial workers. **It also gives the United Steelworkers new arguments for a bigger wage settlement** (BW—Dec.26'59,p24).

The latest jump in the index requires a penny-an-hour raise in pay for some 70,000 meatpacking workers and 25,000 aircraft workers under "escalator" agreements. Another 55,000 workers, most of them under other aircraft contracts, will receive 2¢ an hour more. A scattering of 15,000 workers will get 3¢ increases for the most part in semiannual rather than quarterly wage reviews.

Food prices dropped slightly but other index factors offset this to cause gain (BW—Dec.26'59,p36).

Meanwhile, the Labor Dept. reported that the average take-home pay of industrial workers dropped slightly in November, about 5¢ to $79.97 a week for the worker with three dependents.

• • •

President of Pattern Makers Retires; Headed Craft Union for 25 Years

George Q. Lynch, president of the AFL-CIO Pattern Makers League, retires this weekend after 53 years of active service in the small but important craft union. He has been head of the Pattern Makers for over 25 years.

Lynch will be succeeded by Gunnar Hallstrom, elected to fill an unexpired term to October, 1962. **Lynch refused a title as president emeritus, saying with characteristic candor that "an emeritus title frequently serves as a permit to be meddlesome."**

Lynch's importance in labor has been much greater than that of his union. He exerted strong influence, as first vice-president, in the AFL-CIO Metal Trades Dept. **A man of convictions and courage, he frequently took issue with policies of the federation—and of other union leaders.** Labor tempers often flamed over Lynch statements, as they did, for instance, earlier this year when he questioned the wisdom of the AFL-CIO merger.

• • •

Wilson Resumes Meatpacking Operations After Court Rules Against Shutdown Order

Wilson & Co. this week resumed operations at its Albert Lea, Minn., meatpacking plant with nonstrikers. The plant was shut down 16 days earlier by the National Guard under orders from Gov. Orville Freeman (BW—Dec.19'59,p116). Members of the United Packinghouse Workers are on strike.

Freeman declared martial law following two days of picket-line violence in the small farm city. Troops dispersed the jeering mobs and shut down the plant.

The company appealed the governor's action to the federal courts. On Dec. 23, a three-judge panel ruled that Freeman had exceeded his authority when he ordered the plant closed.

• • •

ILA, Southern Dock Employers Reach Contract Settlement

Waterfront employers in New Orleans, Houston, and Mobile last week reached an agreement with the International Longshoremen's Assn. based on a contract negotiated earlier in New York (BW—Dec.12'59,p128).

The negotiations were conducted under deadline heat, concluded just before the expiration of an injunction under the Taft-Hartley Act. The injunction went into effect in October, following an eight-day strike.

New York employers and the union negotiated a 41¢ package settlement earlier in December. The new agreement resolved old difficulties about the introduction of mechanization. Southern employers, however, balked at a union demand for closing the traditional North-South differential. **Under the new contract all longshoremen will get the same wage increases—12¢ immediately, 5¢ in 1960 and 1961—but the 16¢ North-South differential will be maintained.**

• • •

Tough Rail Bargaining Stretches Out

Rail bargaining is going to get tougher in the next few weeks—but this won't mean a strike early this year. **The chief negotiator for the railroad brotherhoods, George Leighty, has eased strike fears somewhat by saying that if there is a walkout, it probably won't be before May 1.**

Leighty added that he does not consider a strike inevitable; he believes one may be avoided in 1960.

Tool Maker Turns Contractor

1 Preformed piece, an aluminum dish 8 in. deep, is mounted on Hufford Corp.'s 72-in. spin forge at El Segundo, Calif. The part is to become a front section of a missile.

2 The part is being spun, like clay on a potter's wheel, as rollers at left and right shape the metal according to guidance by a template (in foreground).

Rather than sell its latest expensive spin forges, Hufford Corp. is using the tools itself as a subcontractor.

In the whirl of technology, the aircraft and missile industry has been finding it necessary oftener to build its own machine tools for special purposes, rather than wait for the tool industry to catch up with its needs. Now at least one company in the hard-pressed tool business (BW–Jun.20'59,p187) is taking a short cut to meet the aircraft people halfway.

Recently, the Hufford Corp. Div. of Siegler Corp. of Los Angeles announced that it's starting to build the largest chipless machine tool ever assembled: a spin forge capable of producing parts up to 120 in. diameter. And the forge is not for sale—Hufford will use it at its own plant in El Segundo, Calif., to make components as a subcontractor.

Hufford's move to keep the tools it builds in its own shop, hiring their use out on a jobbing basis, could become a trend. Traditionally, tool makers have tended to stick strictly to the business of building tools, leaving their use to their customers. But with tools getting more and more massive and costly, other manufacturers of big special-purpose tools may follow Hufford's lead.

"In time," says Dan W. Burns, president of Hufford and vice-president of Siegler Corp., "our main business will no longer be the manufacture of machine tools—it will be the manufacture of sophisticated aircraft and missile parts."

• **Extending Business**—This is not an altogether new policy for Hufford, which specializes in stretch presses and similar tools, including smaller versions of the huge new spin forge.

The 120-in. spin forge, in fact, joins a 72-incher that Hufford built for itself within the past year for just such work, as well as for research. The 72-in. forge cost Hufford around $400,000. It has been used for subcontract work for nearby aircraft and missile companies.

The 120-incher will cost Hufford about $1-million to build, plus $250,000 for a building to house it. The machine itself will be 26 ft. high, 37 ft. wide, and 22 ft. from front to back.

• **The Process**—"Spin Forging" is Hufford's own copyrighted name for a process that is overdosed with proprie-

3 Completed missile dome, now 36 in. deep, is removed from mandrel.

TWO PASSES of spin forge turn flat piece in foreground into elongated cone at rear. This part is for ram-jet engine.

tary names. Cincinnati Milling Machine Co. calls it Hydro Spinning, Lodge & Shipley Co. has the "Floturn" trademark, and the trade's generic term is roll forming or shear forming.

These three companies are the main sources for roll forming tools—all equally important in this new art. Hufford generally specializes in the larger variety, though they don't have the market to themselves. Lodge and Shipley, for example, recently sold Pratt & Whitney an 80-in. machine. Cincinnati Milling has set up a special division to develop this type of forming machine and can be expected to provide plenty of tough competition for the other two.

The process turns disks of metal into cones, tubes, or rounded shapes by pressing the metal gently into the desired shape and thickness, much as a potter molds the clay on his spinning table. The metal workpiece is spun fast while rollers gradually press the workpiece over a shaped steel mandrel.

The drag or pull that these rollers impose on the spinning disk is sufficient to put the metal in a plastic state so that it conforms to the shaping pressures without weakening its structure. In fact, the elongation of the molecular structure leaves the finished part stronger than ever. Tolerances can be closely controlled by templates that guide the rollers.

No metal is cut away—you end up with exactly as much as you started with. This is a major consideration in working high-priced metals and alloys.

• **Saving Metal**—For example, the engine case for a high priority project rocket is formed with walls only .141 in. thick yet able to withstand pressures of 200,000 pounds per square inch. Conventionally, it is built up of rings, which are rolled from rough forgings to the required diameter, then machined down to the required thickness.

After rolling, the walls are one or two inches thick. This means that 90% of the 47,000 lb. of metal in the engine case must be removed and thrown away. And the 47,000 lb. of metal costs $1.50 to $2 a lb. Production also requires a long series of steps, and a lot of man-hours.

To produce such sections on a spin forge, says Burns, would require only three manufacturing steps and only as much metal as the finished job required. And, he adds, the case would have greater structural strength.

Burns says a jet engine maker was able to justify the cost of a spin forge by the savings achieved on making just 80 parts.

• **The Coming Thing?**—Burns sees chipless machining methods as the coming thing, especially as fabricators have to work more and more with the very expensive steels, titanium alloys, and exotic metals, such as magnesium-thorium, where waste by conventional methods would be out of the question.

Burns points out that Hufford's move from stretch forming to shear forming is a logical step. Stretch forming is, after all, an earlier chipless machining technique—a means of rearranging the metal's structure.

"We're still in the metal-moving business," he says, "but with a much more refined process now."

• **Making the Shift**—Three years ago, according to Burns, Hufford's work was 75% in stretch-forming equipment and accessories, 25% in other special tools and in ground support equipment for missiles, such as launchers and precision placement gear for rocket engines. Today, 50% of Hufford's work is in building spin forges and in producing on them as a subcontractor.

The shift in emphasis was accelerated by the military transition from aircraft to missiles (BW—May16'59,p84). Hufford started business as an independent tool builder in 1941, specializing in stretch forming machines. When it was acquired by Siegler Corp. in September, 1957, Hufford was supplying 85% of the industry's needs for such equipment. But the change was already under way.

"We saw that what was happening was not just a transition from aircraft to missile technology," says Burns. "One industry was dying, and another was being born, made up of the same contractors. We were being left with what was in effect a dying product."

Hufford's manufacturing capacity for stretch forming equipment had by then outrun the demand for it. The company found, for example, that one airframe manufacturer who had 25 stretch presses would be using only five of them, full time.

• **An Opportunity**—Hufford management also saw an opportunity in the lag of manufacturing techniques behind engineering technology in the space age. When it looked around for tooling innovations that would close that gap, it rediscovered the spin forge.

Spin forging, or shear or roll forming, was developed by Germans during the 1920s and was first used, prosaically enough, in making pots and pans. Later the process was used on a small scale on horizontal spinning lathes, but Hufford decided to adapt it in giant vertical machines.

Hufford began research and development on spin forges in 1957, brought out its first 60-in. machines in October, 1958.

It sold 60-in. units to Marquardt Aircraft Corp. (Ogden, Utah) and General Electric's gas turbine division in Evendale, Ohio. Then it built the 72-incher for its own use and is now building a 96-in. model for Lockheed's Missiles & Space Div., as well as the 120-in. giant.

• **Not for Sale**—The decision to use the 120-in. machine for the company's own subcontract work is based partly on the success of such use of the 72-in. forge. Hufford has turned out some propellant-tank bulkheads for the Saturn missile project, the engine dome and instrument section for Lockheed's Polaris, and components for the Pershing, Discoverer, and Thor-Able programs.

An equally persuasive argument in favor of keeping the machine and putting it to work is the problem of how the company would find a market for it anyway. For a tool priced at upward of $1-million, there are only a few prospective buyers—all in the defense business. And lately the government has been less eager to help contractors buy special tools.

By the same token, Hufford doesn't feel that its tool customers resent its own use of the machines—if a customer really wants to buy a million-dollar copy, Hufford would be happy to make one and sell it.

Meanwhile, Hufford is learning by being its own tool customer.

• **Expandable Design**—Hufford is presently digging a new pit next to its 72-in. spin forge for its new giant. A new structure five stories high will enclose the 120-in. unit; Southern California Edison Co. will build a sub-station on Hufford property to prevent each startup of the big forge from browning out El Segundo. The new unit is scheduled for operation in July. **END**

Changing Address

?

• If you are planning to move, please be sure to let our Circulation Department know about it—and as far in advance as possible.

• Since copies of BUSINESS WEEK are addressed one to two weeks in advance of publication date, allow one month for change of address to become effective. Your prompt notification will help us make sure you do not miss any copies.

• Be sure to give us your OLD address as well as your NEW address. We need them both to make the correction—also confirmation of your present company connection and position or title.

• Mail in the coupon if you plan to move. And please fill it in as completely as possible.

THANK YOU!

Fulfillment Manager
BUSINESS WEEK
330 West 42d St.
New York 36, N. Y.

Change of Address Notice

(PLEASE PRINT)

On or About....................................

My NEW address will be....

Street....................................

City .... Zone.........

State....................................

Title....................................

Company....................................

Type of Business....................................

My OLD address was....

Street....................................

City .... Zone.........

State....................................

....
Name Here

ADVERTISERS IN THIS ISSUE

Index for Business Week, January 2, 1960

ADVERTISING SALES STAFF

Midwestern Advertising Sales Manager
John P. Taylor—Chicago

Eastern Advertising Sales Manager
C. C. Randolph—New York

Atlanta 3....Douglas C. Billian, 134 Peachtree St., N. W. Jackson 3-6951
Boston 16......Kent Sanger, Park Square Bldg., Hubbard 2-7160
Chicago 11......Herbert M. Higgins, William F. Holbrook, James E. McShane, Robert Sidur, 520 N. Michigan Ave., Mohawk 4-5800
Cleveland 13......William C. Bradford, John G. Cashin, 55 Public Square, Superior 1-7000
Dallas 2......Gordon I. Jones, Vaughn Bldg., Riverside 7-5117
Denver 2......John W. Patten, Mile High Center, 1740 Broadway, Alpine 5-2981
Detroit 26....G. Robert Griswold, Richard J. McGurk, Penobscot Bldg., Woodward 2-1793
Los Angeles 17......Alfred L. Blessing, 1125 West Sixth St., Huntley 2-5450
New York 36....Harold E. Choate, Fred R. Emerson, John H. Glover, John F. Juraschek, Francis F. McAdams, B. A. McNaughton, John H. Stevenson, John C. White, Jr., 500 5th Ave., Oxford 5-5959
Philadelphia 3......R. Bernard Alexander, James T. Hauptli, Six Penn Center Plaza, Locust 8-4330
Pittsburgh 22......John R. Thomas, Oliver Bldg., Express 1-1314
St. Louis 8....John F. Boomer, Continental Bldg., 3615 Olive St., Jefferson 5-4867
San Francisco 4....John W. Otterson, 68 Post St., Douglas 2-4600
London......Edward E. Schirmer, McGraw-Hill House, 95 Farringdon St., London, E. C. 4
Frankfurt.......M. R. Zeynel, 85 Westendstrasse, Frankfurt-M, Germany

The U. S. Shifts to a New Role

As the decade of the 1960s opens, it is evident that the role of the U. S. in the free world is changing. We are moving from the position of overwhelming dominance that we accepted—somewhat reluctantly—in the years just after the war to a sounder but far more complex relationship with the now rebuilt industrial nations.

The great problem that faces us in the course of this transition is to adjust our national policies to our new situation. We must learn—and learn pretty rapidly—to act as world banker in the conventional sense (page 17) rather than as world philanthropist.

There is nothing alarming about all this. Indeed, the goal of all our postwar efforts has been to make the free world strong enough to stand on its own feet. The fact that we have achieved that goal in large measure should be an occasion for satisfaction.

Nevertheless, it is vitally important to push ahead with the job of developing new policies. And it is evident that the U. S. will have to use the full weight of its economic and diplomatic strength to keep some of our allies from dragging their feet.

A major opportunity to push ahead will come when the U. S. meets with Canada and 10 West European nations in Paris on Jan. 13, in an informal economic conference that may turn out to be the first session of a new Atlantic economic council. There are two items on the agenda for that meeting that deeply concern the U. S. One is the need for expanding European aid to underdeveloped countries and coordinating it with U. S. aid programs. The other is the effect on U. S. exports of Western Europe's division into two rival trade blocs. On both points, it is easy to see where U. S. interests lie.

In the case of development aid, there is a crying need for the big industrial nations of Western Europe to supplement what we are doing in the underdeveloped countries with new programs of their own. In addition, Western Europe might well push ahead with real urgency the plan, already approved in principle, for an International Development Assn. Until steps such as these have been taken, it is pointless to talk—as some Americans and Britons are today—of a grandiose new development aid pool, to which the U. S. and Western Europe would jointly contribute.

On the European trade squabble, the important thing is to get the row among our allies settled on terms that will not restrict U. S. exports to Europe. For a protectionist policy cuts both ways, and if the U. S. cannot expand its European trade it will be forced sooner or later to go protectionist itself.

In the Paris discussions, and others that follow during the course of 1960, the U. S. will be playing an unaccustomed role. It will be seeking to make some of its allies assume their share of the free world's burdens instead of volunteering to pay most of the check itself. In doing so, we are not asking our allies to make concessions to us but simply to take their place in the free world as partners rather than pensioners.

Rockefeller Bows Out

Gov. Nelson Rockefeller's decision not to make a race for the Republican Presidential nomination was a display of realism and political wisdom. It certainly will help his party. And in the long run, it will not hurt Rockefeller's own political fortunes.

The plain fact that Rockefeller had to face after his exploratory swing around the country was that Vice-Pres. Richard Nixon holds a commanding lead over any possible rival. Nixon has earned his preferred position by nearly eight years of service to the Eisenhower Administration, and has consolidated it by building a record as a party regular.

It is testimony to Rockefeller's judgment that he could recognize this in spite of the Presidential fever that was running in his veins. By taking himself out of the race at this early stage he has avoided a primary-by-primary fight that—on the basis of all present indications—he could not hope to win. He has also saved the Republican Party from the weakening effects of a serious split in ranks just before election time.

Actually, Rockefeller's chances of getting the nomination are somewhat better today than they were before he announced his decision. For if anything should happen to take Nixon out of the running, the New York governor's gesture of party solidarity would give him top priority.

Nixon's great strength is his identification with a popular and successful Administration. But if the Administration should suddenly lose favor with the country, this would become a weakness rather than a strength. It's hard to imagine an event—say, an economic panic or a complete breakdown in the international situation—so disastrous that it would make anyone closely identified with the current Administration unacceptable as a candidate. But in any case, this was the only way that Rockefeller would have stood a chance of the nomination.

The net result of Rockefeller's decision is to insure that the Republicans will come up to November with a strong candidate and a unified party. This is a healthy situation. And it is to be hoped that the Democrats—who certainly are suffering from no lack of candidates for their nomination—will be equally lucky in resolving their problem. The job that will face the President of this country in the next four years will be big enough to challenge any man without the added complications of political splits and divided loyalties.

name in
ELS
s
type
t
r)
ic
in)
l
n
ere
re
ss.
l
ck
se Inn
Y.
one
t
nd
n
lle
l.
nton
n
er
wa
e
use)
n
Hotel
on
.